

Hari Krishna Exports Private Limited

September 11, 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,598.90	CARE A; Stable	Reaffirmed; Outlook revised from Positive
Short-term bank facilities	48.99	CARE A2+	Reaffirmed

Details of facilities in Annexure-1

Rationale and key rating drivers

The Hari Krishna group (HK Group) comprises Hari Krishna Exports Private Limited (HKEPL), H.K Designs (India) LLP (HKD), and H.K Jewels Private Limited (HKJ).

The reaffirmation of the ratings to the long-term and short-term bank facilities of the HK Group continues to factor in experienced promoter with a long track record of more than five decades in the cut & polished diamond (CPD) industry, its established global sourcing & marketing channels ensuring steady supply of quality rough diamonds and a geographically diversified clientele base. The ratings also take into account the decline in scale of operations and profitability margins during FY23 (Audited, refers to the period April 01 to March 31). The above rating strengths are, however, tempered by working capital intensive operations and susceptibility of the profitability to volatility in the prices of rough diamonds and foreign exchange fluctuations. The ratings also factor in the inherent risk and fragmented nature of the CPD industry along with high inventory levels as on March 31, 2023. The rating strengths are further constrained by subdued performance of the group in 2MFY24 (refers to the period April 01 to May 31), led by high interest and high inflationary pressures across major diamond-consuming nations impacting the overall demand for natural diamonds.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors:

- ✓ Improvement in the scale of operation and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins on a sustained basis.
- ✓ Improvement in total outside liabilities (TOL)/tangible net worth (TNW) below 1.00x on a sustained basis.
- ✓ Improvement in gross working capital cycle (Inventory + Debtors) below 150 days on a sustained basis.

Negative factors:

- Deterioration in the overall gearing beyond unity on a sustained basis.
- Continued overall sluggishness in demand for natural diamonds resulting in decline in total operating income (TOI) and PBILDT margins on a sustained basis.
- Continued higher level of working capital utilisation over 95% on a sustained basis.

Analytical approach: Combined

The Hari Krishna group (HK Group) comprises Hari Krishna Exports Private Limited (HKEPL), H.K Designs (India) LLP (HKD), and H.K Jewels Private Limited (HKJ).

CARE Ratings Limited (CARE Ratings) has considered financials of the HK Group, while arriving at the ratings, owing to the operational, financial linkages between these entities in the form of unsecured loans and explicit corporate guarantee and a common management. The details of shareholding are as below:

The following companies are considered:

Sr. No.	Name of Entity	Proportion of Eq. Interest (%)	
		2021	2022
1	Hari Krishna Exports Private Limited (HKEPL)	Holding Company	
2	H.K. Jewels Private Limited (HKJ)	51	51
3	H.K. Designs (India) LLP (HKD)	51	51

Outlook: Stable

The revision in the outlook on the long-term rating of the HK Group from 'Positive' to 'Stable' factors in the lower-than- envisaged revenue and profitability for FY23. Furthermore, the revision takes into account expectations of lower than the earlier envisaged revenue, profitability, and cash accruals during FY24, as high interest rates and high inflationary scenario continue to impact the demand for diamond jewellery consumption across major diamond-consuming nations. However, continued strong demand for jewellery segment (through its HKJ) in India is expected to support its growth revenue and profitability going ahead.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

Experienced promoter with long track record of operation in the CPD industry

HKEPL was incorporated in 1992, and was promoted by Savjibhai Dholakia, the Chairman of HKEPL, and his brothers Ghanshyambhai Dholakia, Tulsibhai Dholakia, and Himmatbhai Dholakia. Savjibhai Dholakia primarily looks after the strategy for the group and company, while other brothers are involved in production, marketing, and overall administration of the company. The key promoters have over three decades of experience in the CPD industry. Owing to the closely-held ownership structure, key decision-making is concentrated with the promoters. The second generation of the promoter group (family members of key promoters) has already been inducted into the business and is being trained under mentorship of key promoters for future leadership roles.

Global as well as domestic presence across major diamond and jewellery markets

The HK Group has long-standing relationships with a diversified clientele base across geographies. During FY23, the major export destinations were USA, Hong Kong and Israel. In its diamond division, HKEPL has the requisite expertise to cut and process a range of rough diamond across various shapes, sizes, colour, and clarity. The group draws operational efficiencies from its diverse product profile and varied client base across geographies. The HK Group has marketing affiliates in Hong Kong, USA, and Belgium. In FY23, HKEPL's top 10 customers for CPD sales accounted for around 31% (P.Y: 35%) of the total operating income (TOI).

Strong sourcing of rough diamonds from world's leading diamond mining companies

The HK Group has an established sourcing and marketing arrangement for procurement of rough diamonds from miners (DTC and Alrosa) to distribution and sale of polished diamonds directly to jewellery retailers and wholesalers across the globe. HKEPL is a DTC sight holder and a Rio Tinto Select Diamantaire which enables it in ensuring steady supply of quality rough diamonds. Furthermore, HKEPL is also on the selective list of Alrosa Company Limited a Russian-based diamond mining company. The company is also on selective list of Canada-based diamond mining company-Dominion Diamond Corporation. Established relationship with direct sources of rough diamonds ensures steady availability of quality rough diamonds at competitive prices. Owing to HKEPL's association with the four diamond mining companies, about 27% of its rough procurement is from the miners directly in FY23 (PY: 26%). Apart from De Beers and other global miners, HKEPL also procures 5% - 15% of its rough diamond requirements from its affiliates i.e., H.K Diam B.V.B.A, H.K DMCC, and H.K. Impex Pvt. Ltd. HK Group's Jewellery division sources the polished diamonds of various shapes and sizes primarily from HKEPL to meet their large carat size CPD demand, whereas smaller carat size CPD demand is met from the secondary market.

Decline in revenue and profitability during FY23; substantial decline in TOI in 2MFY23

After strong export growth in FY22, demand stabilised due to increased experienced-based spending and sluggish demand from China, the second-largest diamond consumer, maintaining its strict policies. However, on the back of recent head winds, such as high inflationary pressures across major diamond-consuming nations continues to weigh on CPD processors in India as is evident from the sharp decline in month-wise CPD export data in volume terms. The TOI of the group declined by 9% on y-o-y basis, with the HK group reporting a TOI of ₹10,595.14 crore in FY23, compared with ₹11,628.07 crore in the previous year. Furthermore, during 2MFY24, on a standalone basis, the company's turnover continued to remain subdued with company recording net sales of ₹1,100.00 crore in 2MFY24 as against ₹1,700.00 in 2MFY23. Furthermore, the PBILDT margin declined slightly to 7.04% in FY23 as against 7.31%. Anticipating the trajectory ahead, CARE Ratings envisions this moderated demand for polished diamonds to recover in the forthcoming holiday season. Hence, the resurgence in demand in the forthcoming holiday season assumes paramount significance. Furthermore, continued strong demand for jewellery segment (through its HKJ) in India is expected to support its growth revenue in FY24. The diamond industry being seasonal in nature, a higher level of sales is booked during the second half of the financial year, which coincides with festival seasons in key export market.

Comfortable capital structure and debt protection metrics

The capital structure of the company continued to remain comfortable and improved, marked by an overall gearing of 0.64x as on March 31, 2023, as against 0.84x as on March 31, 2022. The improvement was mainly attributable to the accretion of profits and lower working capital borrowings. As on March 31, 2023, debt to equity has also improved and stood comfortable at 0.02x (PY 0.03x). The total debt/gross cash accruals (GCA), which remained stable and stood at 3.64x as at the end of FY23 (as compared with 3.30x in FY22) and the PBILDT interest coverage ratio also was at 6.17x in FY23 as against PY 11.05x on account of the drop in sales and profitability margins.

Key weaknesses

Working capital intensive operations

The HK group's operations continue to remain working capital intensive. Import dependence for raw materials, higher processing & certification time, and large finished good inventory holding amidst intense competition in the industry has resulted in high working capital intensity for the group. The CPD industry procures roughs from international miners, on advance or cash against delivery basis. While the processing of diamond takes 3-4 months and average credit period is 1.5 months, so that overall 3-4 months working capital cycle is common across CPD players. The working capital cycle deteriorated to 123 days as on March 31, 2023, vis-à-vis 103 days as on March 31, 2022, mainly due to increase in the inventory.

High inventory levels as on March 31, 2023

As on March 31, 2023, the inventory position of the group remained high at ₹4,045 crore accounting for approximately 40% of the projected TOI, with a significant portion in finished goods (FG). High interest and high inflationary pressures across major diamond-consuming nations continue to impact the demand for natural diamonds and the prices. Moreover, the prices of diamonds have seen a significant decline in the larger-sized diamonds, where the HK group has a major presence. CARE

Ratings notes that the ability of the company to liquidate the inventory without impacting the profit margins remains critical from credit perspective.

Susceptibility of profitability to volatility in the prices of rough diamonds

HK Group is dependent on imports to meet its requirement of rough diamonds. The profitability margins of HK remain susceptible to the price of rough and polished diamonds, which are market driven and volatile in nature. Manufacturers in the midstream segment have limited bargaining power at both the ends of value chain, i.e., both at the diamond mining companies as well as the jewellery retailers. HKEPL and HKD being net exporters, thus expose to foreign exchange fluctuations risk. Recently, as a result of sluggish demand, the prices of polished diamond have seen a significant decline, while the prices of rough have witnessed a lower decline. CARE Ratings will continue to monitor the impact of lower polished diamond prices on profitability of the company.

Inherent risk and fragmented nature of CPD industry

India is the world's largest centre for cutting and polishing of diamonds. However, the CPD industry in India is highly fragmented with the presence of numerous unorganised players in addition to the large integrated G&J manufacturers leading to a high level of competition. The export oriented CPD industry is susceptible to various guidelines by Government of India, along with the change in taxation structure, impacting the industry. After witnessing robust growth in the CPD exports from India during FY22 at US \$24.43 billion and stable performance in FY23 at US \$22.04 billion, high inflationary pressures across major diamond-consuming nations continue to weigh on CPD exports from India. Consequently, CPD exports, in value terms, witnessed a decline of 32% on a Y-o-Y basis in 4MFY24. Anticipating the trajectory ahead, CARE Ratings envisions this moderated demand for CPD to recover in the forthcoming holiday season, and further expect the overall CPD exports, on an annual basis, to decline about 10%-15% to US\$19 billion to US\$20 billion.

Liquidity - Adequate

HKEPL has adequate liquidity marked by stable current ratio, healthy GCA with no major long-term repayment obligations, albeit maximum utilisation of bank lines.

The HK Group's current ratio stood at a comfortable level of 1.56x as on March 31, 2023 (PY: 1.41x). Unencumbered cash and bank balance stood at ₹128 crore as on March 31, 2023, and ₹38 crore as on March 31, 2023. On an average, the maximum utilisation for the past 12 months ending March 2023 for HKEPL, HKJ and HKD remained high at 89% 97% and 95%, respectively. The company reported a GCA of ₹475 crore in FY23. Furthermore, the group has only Guaranteed Emergency Credit Line (GECL) loan amounting to ₹31 crore as on March 31, 2023.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cut and Polished Diamonds](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

Hari Krishna Exports Private Limited (HKEPL) was originally established in 1992 as a partnership firm, M/s. Hari Krishna Exports (HKE). Later, HKE was converted into a private limited company in February 2012 and was renamed as HKEPL. HKEPL is the flagship company of the Hari Krishna (HK) Group. The Group is promoted by Savjibhai Dholakia and his brothers, Ghanshyam Dholakia, Tulsibhai Dholakia, and Himmatbhai Dholakia. The group is primarily engaged in the Cutting and Polishing of rough diamonds and manufacturing and wholesale sales of diamond-studded jewellery. It exports to countries like Hong Kong, Israel, USA, Belgium, UAE, Thailand, China, Japan, and UK. The group companies which are engaged in the manufacturing and exports of diamond-studded jewellery are M/s. H.K Designs (India) (HKD). HKD has its manufacturing unit located in SEEPZ, Andheri. HKEPL has its manufacturing units located at Surat and SEEPZ, Mumbai.

Brief Financials (HK Group) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023(P)
Total operating income	7,935.55	11,628.00	10,595.14
PBILDT	504.71	849.82	746.40
PAT	289.39	538.17	422.83
Overall gearing (times)	1.02	0.84	0.64
Interest coverage (times)	7.32	11.05	6.17

A: Audited, P: Provisional Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-EPC/PSC		-	-	-	1577.90	CARE A; Stable
Fund-based - LT-Term loan		-	-	March 2027	21.00	CARE A; Stable
Non-fund-based-Short term		-	-	-	48.99	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-EPC/PSC	LT	1577.90	CARE A; Stable	-	1)CARE A; Positive (14-Jun-22)	1)CARE A; Positive (05-Nov-21)	1)CARE A; Negative (06-Jan-21) 2)CARE A; Negative (29-Apr-20)
2	Non-fund-based-Short term	ST	48.99	CARE A2+	-	1)CARE A2+ (14-Jun-22)	1)CARE A2+ (05-Nov-21)	1)CARE A2+ (06-Jan-21) 2)CARE A2+ (29-Apr-20)
3	Fund-based - LT-Term loan	LT	21.00	CARE A; Stable	-	1)CARE A; Positive (14-Jun-22)	1)CARE A; Positive (05-Nov-21)	1)CARE A; Negative (06-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-EPC/PSC	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based-Short term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
<p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Divyesh Bharat Shah Director CARE Ratings Limited Phone: 0204009069 E-mail: divyesh.shah@careedge.in</p> <p>Manohar S Annappanavar Associate Director CARE Ratings Limited Phone:02267543436 E-mail: manohar.annappanavar@careedge.in</p> <p>Anup Nandkumar Purandare Assistant Director CARE Ratings Limited E-mail: anup.purandare@careedge.in</p>

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in