Kiran Jewels (India)

October 09, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	48.80	CARE A+; Stable	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The Kiran Group (KG) comprises of Kiran Gems Private Limited (KGPL) consolidated, Kiran Jewelry (KJ), and Kiran Jewels (India) (KJI).

The reaffirmation of the ratings to the long-term and short-term bank facilities of KG factors in the stable performance of the company in FY23, marked by stable scale of operations and slight improvement in the profit before interest, lease and depreciation (PBILDT) margin in FY23, the well-established experienced promoters, and the company's diversified presence across diamond sizes with an international marketing set-up. The ratings also factor in its association with the world's leading diamond mining companies, which ensures the steady supply of rough diamonds, and its established relationships with customers along with strong debt coverage indicators.

The ratings' strengths, however, continue to remain tempered by the working capital-intensive operations of the company and the susceptibility of margins to the volatility in the prices of rough diamonds and foreign exchange fluctuations. The ratings also factor in the inherent risk and the highly fragmented and cyclical nature of the cut and polished diamond (CPD) industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Efficient management of its working capital requirements, leading to significant improvement in its liquidity and working capital cycle to less than 90 days on a sustained basis.
- Significant improvement in the capital structure and debt protection indicators, while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of 8% per annum on a sustained basis.

Negative factors

- Decline in the total operating income (TOI) below ₹15,000 crore and decline in the PBILDT margin below 4.5% on a sustained basis.
- Significant increase in the receivables and inventory, resulting in significant deterioration in the working capital cycle and utilisation of limits over 90% on a sustained basis.
- Decline in the overall gearing above 0.8x on a combined basis.

Analytical approach: Combined

CARE Ratings Limited (CARE Ratings), while assigning the ratings, has taken the combined approach. KGPL has various subsidiaries, associates, and joint ventures (JVs). These companies are combined due to the operational and financial linkages, common brand, common promoters, fungible cash flows, and support provided by KGPL to various subsidiaries and associates, etc. The list of companies considered for our analysis are:

1. KGPL (Standalone)
2. Kiran Jewelry (bank guarantee is given by KGPL)
3. Kiran Jewels (India)
4. Kiran Gems DMCC
5. Kiran Wind Energy Private Limited
6. Kiran Gems USA INC
7. Kiranmani Investment and Finance Private Limited

Outlook: Stable

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

CARE Ratings believes that KG will continue to benefit from its experienced promoters, from being one of the largest exporters of CPD from India, from the well-established sourcing arrangements of rough diamonds from the world's leading diamond mining companies, coupled with established relationships with customers.

Detailed description of the key rating drivers

Key strengths

Extensive experience of the promoters in the CPD industry

KGPL is the flagship company of KG, promoted by Vallabhbhai Patel (Chairman), Babubhai Lakhani (Director), and Mavjibhai Patel (Managing Director). KGPL commenced business as a partnership firm (erstwhile Kiran Exports) in 1985 and was incorporated in September 2007 as a private limited company. The promoters have more than three and half decades of experience in the gems and jewellery (G&J) industry, resulting which the group continues to be the largest exporter of CPD from India, accounting for about 8.53% of the total exports from India in FY23.

Apart from this, the group has presence in the jewellery segment through its group companies (KJ and KJI). KGPL holds 2% in KJ and the rest is owned by KGPL's promoters and related parties and the entire shareholding of KJI is held by KGPL's promoters and related parties.

Strong business profile with international marketing set-up

KG has integrated operations throughout the G&J value-chain – from sourcing, cutting and polishing of rough diamonds to jewellery manufacturing and marketing. It has been able to establish strong relationships with a diversified client base across geographies. As such, the group draws significant operational efficiencies from its integrated operations and diverse client base. The CPD sales is conducted through KGPL, which has the requisite expertise to process rough diamonds into polished diamonds according to the best combination of carat, cut, colour, and clarity. KGPL has sales exposure in both, the domestic and international markets, through its group companies as well as marketing affiliates. KGPL marketing affiliates and group associates are located in key diamond centres and major markets like Hong Kong, the US, Belgium, and the UAE. Hong Kong is the biggest market for KGPL, comprising 17% of the TOI in FY23.

Sourcing of rough diamonds from world's leading diamond mining companies

KG is a site holder through various associates – KGPL, Kiran Gems DMCC, and Kiran Exports B.V.B.A.

KGPL has its sight holder agreement with De Beers. KGPL procures most of its rough diamond requirements from its associates, i.e., Kiran Exports B.V.B.A and Kiran Gems DMCC, a Dubai-based group associate, and these companies procure rough diamonds from miners and the secondary market and supply them to KGPL. The access to the primary sources of rough diamonds imparts a significant competitive advantage to the group, as it ensures access to consistent supply of quality rough diamonds. Furthermore, it enables the group to plan production efficiently, as the delivery timings of rough supplies are reasonably known to sight holders in advance. This enables the group to service a large customer base efficiently.

Apart from procuring rough diamonds, KGPL also procures polished diamonds for meeting specific requirements of customers. Other key raw materials include gold metal, silver metal, and dyes and moulds for jewellery manufacturing, which is procured through bullion exchanges and traders.

Established relationships with customers

KGPL has a diversified customer base with exposure to jewellery manufacturers (through group companies) and retailers all over the world. KGPL has a significant amount of exposure to group entities and affiliates, as sales in the international markets are routed through group companies. During FY23, the sales for KGPL (standalone) from the top 10 customers accounted for about 56.86% as against 55.14% in FY22.

TOI largely stable with slight improvement in margins, albeit expected to moderate in FY24

During FY23, KGPL (combined) reported a stable TOI, showing a marginal decline of 2.13% from ₹23,302.82 crore in FY22 to ₹22,807.12 crore in FY23, led by largely stable demand in FY23 after a robust growth in FY22. Moreover, the PBILDT margin at the combined level continued to remain largely stable and improved slightly to 8.09% in FY23 (PY: 7.65%). The company mainly operates in smaller diamonds, where the prices of polished diamonds has largely remained stable compared to larger diamonds; accordingly, the margins have improved in FY23. However, led by sluggishness across major diamond consuming countries, the prices of smaller size diamonds have witnessed a drop in the current financial year, resulting which both, sales and margins are expected to moderate in FY24.

Strong debt coverage indicators with improvement in overall gearing

The debt coverage indicators continued to remain strong in FY23. At the group level, the interest coverage ratio (ICR), albeit declined, continued to remain strong at 10.03x in FY23 (PY: 15.03x) on account of the robust PBILDT despite the increase in finance cost. The total debt (TD) to gross cash accruals (GCA) at the group level too remained largely stable, with slight deterioration to 1.81x as on March 31, 2023 (PY: 1.79x), on account of higher debt levels during the year. The overall gearing at the group level improved to 0.40x in FY23 (PY: 0.46x). However, the group's utilisation of limits was almost full as on March 31, 2023. On an average, the maximum utilisation of the limits of KGPL (standalone) remained high at 95.83% for the last 12 months ended July 31, 2023; for KJI (standalone) it remained high at 87.43% for the last 12 months ended August 31, 2023; and for KJ, the average maximum utilisation remained high at 92.63% for the last 12 months ended August 31, 2023.

In view of the recent announcement regarding self-imposed freeze of rough imports by midstream players for a period of two months from October 15, 2023, to December 15, 2023, it is expected to result in reducing polished inventory levels. Accordingly, the inventory at the group (KG) level is expected to reduce substantially, thereby resulting in lower utilisation of bank limits.

Key weaknesses

Working capital-intensive nature of business

KG's operations continue to remain working capital-intensive. The rough diamonds are procured on an advance payment or cash basis from miners directly, with the balance from group entities and others on a credit of 90-120 days. The creditor days at the group level was 59 days in FY23 as against 51 days in FY22. Furthermore, the processing of diamonds takes three to four months and the average credit period is one and a half months; so overall, a working capital cycle of three to four months is common across CPD players.

KGPL operates across sizes (0.1 carat to 3 carat), colours, and clarity. To facilitate this variety, KGPL has to maintain a raw materials inventory of two to three months and a finished good inventory of at least two months.

KGPL's (combined) operating cycle deteriorated to 112 days in FY23 vis-à-vis 87 days in FY22; the change was due to an increase in the inventory days from 69 days in FY22 to 100 days in FY23.

Susceptibility of profitability to volatility in the prices of rough diamonds and foreign exchange fluctuations

The manufacturers in the CPD industry have limited bargaining power vis-à-vis both, the diamond mining companies and the jewellery retailers who earn maximum profitability in the value chain. The increase or decrease in the prices of rough diamonds impact all the CPD manufacturers in the industry equally, and so, any increase in the prices of rough diamond is passed on to the buyers of polished diamonds. KGPL is dependent on imports to meet its requirements of rough diamonds, with the entire rough diamonds purchase being imported. KGPL also procures polished diamonds for trading purpose. KGPL's profitability margins are susceptible to the prices of rough and polished diamonds, which are market-driven and volatile in nature. Moreover, the PBILDT margin at the combined level continued to remain largely stable and improved to 8.09% in FY23 (PY: 7.65%). The company primarily operates in smaller diamonds, where the prices of polished diamonds has largely remained stable compared to larger diamonds; accordingly, the margins have improved in FY23.

KGPL enjoys a natural hedge on most of its foreign exchange exposure. KGPL is exposed to foreign currency fluctuation risk with respect to receivables and payables in foreign currency, while the rest on a net basis is covered through forward covers and options contracts. However, the margins continue to remain exposed to forex risk owing to timing differences.

Inherent risk and fragmented nature of CPD

India is the world's largest centre for the 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 the Government of India (GoI) and changes in the taxation structure, impacting the industry.

After witnessing robust growth in 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 about 28% on a y-o-y basis in 5MFY24. Anticipating the trajectory ahead, CARE Ratings envisions this moderated demand for CPD to recover in the forthcoming holiday season. On an annual basis, we expect the overall CPD exports to decline by about 10-15% to US$ 19-20 billion.

The ratings also take cognisance of the recent announcement made by the Gems and Jewellery Export Promotion Council (GJEPC), dated September 27, 2023, for a two-month freeze of rough imports during the period from October 15, 2023, to December 15, 2023, which is expected to result in a reduction of polished inventory and stabilising of prices in the short term.

Liquidity: Adequate

The healthy GCA, stable current ratio, comfortable cash balance, no long-term repayment obligations for FY24, and the lower overall gearing allows the company to increase its bank lines, with no major capex planned in the near future. Furthermore, the financial support from the promoters and the near full utilisation of the bank lines results in an adequate liquidity position for the company. The cash flow from operations stood at a positive ₹63.31 crore in FY23 as against a positive ₹147.40 crore in FY22. The overall gearing at the group level stood comfortable and improved for the year ended March 31, 2023, at 0.40x (PY: 0.46x), which gives a hand room to KG to borrow more.

KGPL, on a combined basis, has reported GCA of ₹1,394.40 crore in FY23 (PY: ₹1,315.52 crore). The current ratio remained in line at 2.08x for the year ended March 31, 2023 (PY: 1.66x). The unencumbered cash and bank balance stood at ₹168.50 crore as on March 31, 2023, on a consolidated basis, while on a standalone basis, the cash balance stood at ₹124.15 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

KGPL: KGPL is the flagship company of KG, promoted by Vallabhbhai Patel (Chairman), Babubhai Lakhani (Director), and Mavjibhai Patel, Managing Director. KGPL commenced business as a partnership firm (erstwhile Kiran Exports) in 1985 and was changed to a private limited company in September 2007. KG offers a wide range of CPD with various shapes (such as round, marquise, pear, princess, emerald, heart, and oval), clarity (IF to S12), colours (D to M), and sizes (varying from 1 cent to 10 carat). KGPL sold over 2.91 million polished diamonds during FY23. The operations of KG are well integrated – from sourcing of rough diamonds to cutting and polishing of diamonds to diamond-studded jewellery manufacturing. KG has established itself as one of the largest players in CPD in India. KGPL's CPD export sales, as a percentage of the total export of CPD from India during FY23, was at 8.85% (PY: 8.38%). KG has been consistently receiving top exporter performance awards for the past 10 consecutive years from FY08 to FY17 by the Gems & Jewellery Export Promotion Council. In FY18, it received the top exporter performance in Maharashtra Award from the Federation of Indian Export Organizations. KGPL exports diamonds primarily to Hong Kong, the UAE, the US, Israel, and Belgium. KGPL's manufacturing units are located in Surat, spreading from approximately 10.55 lakh sq ft. KGPL has sourcing arrangements for rough diamonds with most leading miners – De-Beers, Alrosa, and Okavango.

KJ: Majority of KJ's sales take place in the US market through Unique Designs Inc. The manufacturing facility of KJ SEZ unit is in Surat, Gujarat. KJ is engaged in the manufacturing of diamond-studded jewellery. KJ caters to export markets, mainly the US, Malaysia, and India. KJ sources majority of its raw materials from KGPL. KGPL has only 2% stake in KJ and reduced its economic interest in KJ from 5% to 2% w.e.f. October 01, 2020. KJ's revenue accounted for around 2% of the TOI of the group during FY23.

KJI: KJI is another group entity of KG, which is into the manufacturing of diamond-studded jewellery. KJI's manufacturing facility is located in Surat, Gujarat. KJI largely caters to the domestic market. It does not have any stake in KJI as on March 31, 2023. The group retired from KJI on July 05, 2019. As indicted by the management, the entity does not require KGPL's funds or investment, however, the promoters individual holding has increased to that extent. KJI contributes around 2.38% of the TOI of the group.

Brief Financials - Combined (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	5MFY24 (UA)
Total operating income**	23302.82	22807.12	5449.61*
PBILDT	1782.24	1843.96	NA
PAT	1195.35	1274.55	NA
Overall gearing (times)	0.46	0.40	NA
Interest coverage (times)	15.03	10.03	NA

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.
**The TOI excludes interparty.
*Sales includes the TOI of KGPL (standalone), KJ, and KJI.

Brief Financials – KJI Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	5MFY24 (UA)
Total operating income	353.06	543.53	200.14
PBILDT	15.52	23.61	NA
PAT	9.22	13.66	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	23.26	19.36	NA

A: Audited UA: Unaudited NA: Not available; 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 instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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-Cash Credit		-	-	-	48.80	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/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-Cash Credit	LT	48.80	CARE A+; Stable	-	1)CARE A+; Stable (07-Nov-22) 2)CARE A+; Stable (10-Oct-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A; Negative (04-Feb-21) 2)CARE A (CW with Negative Implications) (02-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: 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.

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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.

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