

## Kiran Gems Private Limited

February 29, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,400.00	CARE A+; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	400.00	CARE A1	Reaffirmed

Details of facilities in Annexure-1.

### Rationale and key rating drivers

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

Reaffirming ratings of long-term and short-term bank facilities of KG, which factors in the company's stable performance in FY23, despite moderation in 9MFY24 (UA), well-established and experienced promoters, and its diversified presence across diamond sizes with an international marketing set-up. Ratings also factor in the company's association with world's leading diamond mining companies, ensuring steady supply of rough diamonds, its established relationships with customers and strong debt coverage indicators.

However, ratings' strengths continue to remain tempered by working capital-intensive operations and margins susceptible to rough diamonds price volatility and foreign exchange fluctuations. Ratings also factor in inherent risk, and highly fragmented and cyclical cut and polished diamond (CPD) industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Efficiently managing working capital requirements, leading to significantly improving liquidity and working capital cycle to less than 90 days on a sustained basis.
- Significantly improving 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

- Declining total operating income (TOI) below ₹15,000 crore and declining PBILDT margin below 4.5% on a sustained basis.
- Significantly increasing receivables and inventory, resulting in significantly deteriorating working capital cycle and utilisation limits over 90% on a sustained basis.
- Declining overall gearing above 0.8x on a combined basis.

### Analytical approach: Combined

CARE Ratings Limited (CARE Ratings), while assigning ratings, has considered a combined approach. KGPL has various subsidiaries, associates, and joint ventures (JVs). These companies are combined due to operational and financial linkages, common brand, common promoters, fungible cash flows, and support provided by KGPL to subsidiaries and associates, among others.

The list of companies considered for our analysis include:

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: Negative

The revision in outlook from stable to negative factor in CARE's expectation that KG to report higher than anticipated dip in scale and Gross Cash Accruals (GCA) in FY24 on the back of high inventory at the start of fiscal FY24, falling prices of polished diamond. The ability of the company to sustain scale and profitability amidst continued sluggish demand, high inventory levels with falling

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

prices of rough remain a key monitorable. The revision also factors in higher level of receivables over 6 months as on December 31, 2023, for KGPL.

The outlook may be revised to stable in case of higher-than-anticipated growth in scale and improving profitability translating in improved GCA and working capital position.

## Detailed description of the key rating drivers:

### Key strengths

#### Extensive experience of 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. Promoters have more than three and half decades of experience in the gems and jewellery (G&J) industry, due to which the group continues to be the largest exporter of CPD from India, accounting for about 8.53% of the total exports from the country 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. 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 rough diamonds to jewellery manufacturing and marketing. It has established 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. CPD sales are conducted through KGPL, which has the requisite expertise to process rough diamonds into polished ones according to the best combination of carat, cut, colour, and clarity. KGPL has sales exposure in domestic and international markets through its group companies as well as marketing affiliates. KGPL marketing affiliates and group associates are in key diamond centres and major markets including Hong Kong, the US, Belgium, and the UAE. Hong Kong and the US were KGPL's biggest market in FY23 and 9MFY24 (UA).

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

KG is a site holder through 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, Kiran Exports B.V.B.A and Kiran Gems DMCC, a Dubai-based group associate. These companies procure rough diamonds from miners and the secondary market and supply them to KGPL. Access to primary sources of rough diamonds imparts a significant competitive advantage to the group, as it ensures access to consistent supply of quality rough diamonds. It also enables the group to plan production efficiently, as 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 customer requirements. Other key raw materials include gold, silver, 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 exposure to group entities and affiliates, as sales in international markets are routed through group companies. In FY23, sales for KGPL (standalone) from the top 10 customers accounted for about 56.86% as against 55.14% in FY22.

#### TOI largely stable with slightly improved in margins in FY23, despite moderation in H1FY24

In FY23, KG 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. In current year 9MFY24 (UA) KG reported a TOI of ₹13406.00 crore, which is less than 60% of FY23 TOI. This TOI moderation is due to sluggish demand for natural diamonds. PBILDT margin at the combined level continued to remain largely stable and improved slightly to 8.09% in FY23 (PY: 7.65%). However, it is expected to decrease in current year FY24, as KGPL at a standalone level reported a PBILDT margin of 6.02% in H1FY24 as against 7.82% in FY23. The company mainly operates in smaller diamonds, where prices of polished diamonds has largely remained stable compared to larger diamonds; accordingly, margins improved in FY23. However, led by sluggishness across major diamond consuming countries, prices of smaller size diamonds have witnessed a drop in the current financial year, due to which, sales and margins moderated in YTD-FY24 and are expected to remain largely subdued.

#### Strong debt coverage indicators with improving overall gearing

Debt coverage indicators continued to remain strong in FY23. At the group level, the interest coverage ratio (ICR), despite declining, continued to remain strong at 10.03x in FY23 (PY: 15.03x) from robust PBILDT despite increasing 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), from higher debt levels in the year. Overall gearing at the group level improved to 0.40x in FY23 (PY: 0.46x). Due to voluntary freeze of import of rough diamonds during October 15 to December 15, 2023, continued sales, inventory levels and receivables have witnessed a decline in recent months. KGPL's standalone inventory level as on

December 31, 2023, was at ₹5910 crore against ₹5607 crore as on March 31, 2023, and receivables as on December 31, 2023, was at ₹3275 crore against ₹3742 crore as on March 31, 2023, with more than six months accounting for 22% of total receivables. Despite continued high level of inventory, utilisation has shown a substantial decline reaching ₹530.45 crore (25% of total limits) as on December 31, 2023, as against almost full utilisation during last 12 months ending March 31, 2023. This indicates lower reliance on bank finance for its working capital requirements.

With high inventory levels and falling prices of rough diamonds, the company's ability to improve profitability margins and timely realisation of debtors over six months remains a key monitorable.

## Key weaknesses

### Working capital-intensive business

KG's operations continue to remain working capital-intensive. Rough diamonds are procured on an advance payment or cash basis from miners directly, and balance from group entities and others on a credit of 90-120 days. Creditor days at the group level was 59 days in FY23 as against 51 days in FY22. Processing of diamonds takes three to four months and average credit period is one-and-a-half months; so overall, the 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, KGPL maintains 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 against 87 days in FY22; the change was due to an increase in inventory days from 69 days in FY22 to 100 days in FY23.

### Profitability susceptible to volatile prices of rough diamonds and foreign exchange fluctuations

Manufacturers in the CPD industry have limited bargaining power against diamond mining companies and jewellery retailers, who earn maximum profitability in the value chain. The increase or decrease in prices of rough diamonds impact all CPD manufacturers in the industry equally, and so, increase in prices of rough diamond is passed on to buyers of polished diamonds. KGPL depends on imports to meet its rough diamond requirements, with the entire rough diamonds purchase being imported. KGPL also procures polished diamonds for trading. KGPL's profitability margins are susceptible rough and polished diamond prices, which are market-driven and volatile. The PBILDT margin at a 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 prices of polished diamonds has largely remained stable compared to larger diamonds; accordingly, margins improved in FY23.

KGPL enjoys a natural hedge on most of its foreign exchange exposure. KGPL is exposed to foreign currency fluctuation risk for receivables and payables in foreign currency, while the rest on a net basis is covered through forward covers and options contracts. However, 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 cutting and polishing diamonds, accounting for over 90 to 95% of the total world's polished diamond consumption. However, the Cut and Polished Diamond (CPD) industry in India is highly fragmented with numerous unorganised players, in addition to large integrated G&J manufacturers, leading to a high competition.

As a result of global inflationary trends, adverse macro-economic environment, and opening of experienced-based spending has led to overall decline in demand for natural diamonds, which is discretionary. Moreover, increasing penetration of Lab Grown Diamond (LGD), continue to further impact the demand for natural diamonds. Consequently, total CPD exports from India declined to 27.58% at US\$ 13 billion (PY: US\$ 18 billion) in 10MFY24.

Prices of polished diamond have declined by 10-40% in last 12 months ended December 31, 2023, while moderation in rough diamond prices were lower than polished prices in the same period. In January 2024, there has been slight improvement in prices of polished diamonds with moderation in prices of rough ones.

For the midstream segment dominated by Indian entities, which had high inventory at the start of fiscal FY24, falling polished diamond prices impacted scale and profitability margins, resulting in higher-than-anticipated decline in gross cash accruals. Hence, outlook for the industry is negative.

Focus on reducing inventory with voluntary import ban imposition, reducing reliance on bank borrowings for working capital requirement would facilitate corporates to reduce impact on credit profile.

### Liquidity: Adequate

KG's liquidity at group level (KGPL [Std.] +KJ+KJI) is adequate, characterised by sufficient cushion with gross cash accruals in H1FY24 of ₹ 248.46 crore, and adequate cash balance of ₹40.42 crore as on September 30, 2023, against no scheduled repayment in FY24 and FY25. As on December 31, 2023, KJ and KJI had a cash and liquid balance of ₹5.96 crore and ₹9.47 crore respectively. From voluntarily freezing import of rough diamonds from October 15 to December 15, 2023, continued sales, inventory levels, and receivables, declined in the recent months. KGPL's standalone inventory level as on December 31, 2023, was at ₹5910 crore as against ₹5607 crore as on March 31, 2023, and receivables as on December 31, 2023, was at ₹3275 crore as against ₹3742 crore as on March 31, 2023, with more than six months accounting for 22% of total receivables. Despite continued high inventory, utilisation has shown a substantial decline reaching ₹530.45 crore (25% of total limits) as on December 31, 2023, as against almost full utilisation during last 12 months ending March 31, 2023. This indicates lower reliance on bank finance for its working capital requirements.

## Applicable criteria

[Definition of Default](#)  
[Consolidation](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Rating Watch](#)  
[Manufacturing Companies](#)  
[Financial Ratios – Non financial Sector](#)  
[Cut and Polished Diamonds](#)  
[Short Term Instruments](#)

## 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 in FY23. KG's operations are well integrated – from sourcing rough diamonds to cutting and polishing 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 in 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 in Surat, Gujarat, 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 manufacturing diamond-studded jewellery. KJ caters to export markets, mainly the US, Malaysia, and India. KJ sources majority raw materials from KGPL. KGPL has only 2% stake in KJ and reduced its economic interest in KJ from 5% to 2% from October 01, 2020. KJ's revenue accounted for around 2% of the TOI of the group in FY23.

**KJI:** KJI is another group entity of KG, which is into manufacturing diamond-studded jewellery. KJI's manufacturing facility is 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 indicated by the management, the entity does not require KGPL's funds or investment, however, promoters' individual holding has increased to that extent. KJI contributes around 2.38% TOI to the group.

Brief Financials - Combined (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income**	23302.82	22807.12	13406.00
PBILD	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: These are latest available financial results.

\*\* TOI excludes interparty.

Brief Financials – KGPL Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	17,536.84	17,732.77	6,285.83*
PBILD	1,733.27	1,399.30	378.30
PAT	1,141.19	865.39	182.58
Overall gearing (times)	0.46	0.37	NA
Interest coverage (times)	16.03	9.27	4.22

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

\*Current year performance: KGPL has reported a TOI of ₹9121 crore on a standalone basis for 9MFY24 (UA).

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of rated instruments/facilities:** Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

**Complexity level of 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-Long Term		-	-	-	2400.00	CARE A+; Negative
Non-fund-based - ST-Forward Contract		-	-	-	400.00	CARE A1

#### Annexure-2: Rating history for 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-Long Term	LT	2400.00	CARE A+; Negative	1)CARE A+; Stable (09-Oct-23)	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)
2	Non-fund-based - ST-Forward Contract	ST	400.00	CARE A1	1)CARE A1 (09-Oct-23)	1)CARE A1 (07-Nov-22) 2)CARE A1 (10-Oct-22)	1)CARE A1 (07-Oct-21)	1)CARE A2+ (04-Feb-21) 2)CARE A2+ (CW with Negative Implications) (02-Apr-20)

\*Long term/Short term.

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

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-Forward Contract	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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