Kiran Jewelry

October 10, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	115.00	CARE A; Negative	Downgraded from CARE A+; Negative
Short-term bank facilities	5.00	CARE A2+	Downgraded from CARE A1

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has taken a combined analytical view of Kiran Group (KG) comprising Kiran Gems Private Limited – Consolidated (KGPL), Kiran Jewelry (KJ), and Kiran Jewels (India) (KJI), owing to their common promoter group and management, presence in similar line of business, and strong operational and financial linkages.

Downgrade in ratings assigned to bank facilities of KG factors in moderation in scale of operations and significant decline in profitability in FY24 (FY refers to April 01 to March 31) owing to demand slowdown and price decline in the CPD (cut and polished diamonds) industry, which is expected to continue in the near term. The rating revision also factors in elongation of working capital cycle with higher collection and inventory period.

Ratings continue to derive strength from its extensive experience of promoters in CPD industry, strong business profile with an international marketing set-up, established sourcing arrangements with world's leading, and established diversified customer base. Ratings also consider comfortable capital structure and comfortable debt coverage indicators although moderating in FY24. however, ratings continue to remain constrained by the working capital intensive operations, profitability susceptible to foreign exchange fluctuations and rough diamonds prices, and fragmented nature of the CPD industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing scale of operations with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of above 6% on sustained basis.
- Efficiently managing working capital requirements, leading to significantly improving liquidity and working capital cycle to less than 120 days on a sustained basis.

Negative factors

- Declining total operating income (TOI) below ₹15,000 crore and declining PBILDT margin below 3.00% 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), has considered a combined approach. KGPL has subsidiaries and associates with combined operational and financial linkages, common brand, common promoters, fungible cash flows, and support.

The list of companies considered are:

1. KGPL (Consolidated) which includes KGPL (Standalone) and its four subsidiaries Kiran Gems DMCC, Kiran Wind Energy Private Limited, Kiran Gems USA INC, and Kiranmani Investment and Finance Private Limited.
2. Kiran Jewelry.
3. Kiran Jewels (India).

Outlook: Negative

Continued negative outlook reflects CARE Ratings' expectation of continued pressure on scale of operations and profit margins considering sluggish demand across the CPD industry and declining diamond prices . The outlook may be revised to stable in case of recovery in demand leading to growth in its scale of operations and improvement in its profitability.

Detailed description of 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 over 35 years of experience in the gems and jewellery (G&J)

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

industry and have established the group as the largest exporter of CPD from India, accounting for ~8% of total exports from the country. The group also has presence in the jewellery segment through its group companies KJ and KJI.

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 and marketing affiliates. KGPL marketing affiliates and group associates are in key diamond centres and major markets including Hong Kong, the USA, Belgium, and the UAE. Hong Kong and the USA were KGPL's biggest market in FY23 and FY24.

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 also procures 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. Sales for KGPL (standalone) from the top 10 customers accounted for ~50% in the last two years ended FY24.

Comfortable leverage and debt coverage indicators despite moderating in FY24
On combined basis, KG's capital structure continued to remain comfortable marked by overall gearing of 0.28x, which improved from 0.42x as on March 31, 2024, owing to lower working capital utilisation. It is expected to remain comfortable in the near-to-medium term with the group focusing on reducing in bank debt.

Debt coverage indicator marked by Interest coverage ratio though deteriorated with decline in profitability, continued to remain at comfortable level at 3.89x in FY24 (PY: 10.03x) and TDGCA at 4.65x as on March 31, 2024 (PY: 1.81x).

Key weaknesses

Moderation in scale of operations with significant decline in profitability in FY24
On combined basis, KG reported moderation in TOI and significant decline in profitability in FY24. TOI decreased by over 15% in FY24 to ₹19,324 crore (PY: ₹22,807 crore). Though jewellery segment provided cushion, the reduction in TOI is primarily considering continued sluggish demand across CPD industry, as reflected by total CPD exports from India had declined by 28% in FY24 over FY23 and has reached its lowest level in the last five years. Declining polished diamond prices and sluggishness across major diamond consuming countries impacted KG's profitability significantly. PBILDT margin reduced significantly by over 474 bps to 3.35% in FY24 compared to 8.09% in FY23. With continued sluggish demand and moderation in prices, CARE expects KG's TOI and margins to remain subdued in the near-to-medium term.

Working capital intensive business
KG's operations continue to remain working capital intensive. Rough diamonds are procured on an advance payment/ cash basis from miners directly with balance from group entities and others on a credit of 90-120 days. Creditor days were 45 days in FY24 against 58 days in FY23. Processing of diamonds 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.

KGPL offers variety in sizes (0.1 carat to 10 carat), colours and clarity. To facilitate this variety KGPL has to maintain –2-3 months of raw material inventory and finished good inventory of at least two months.
KG's (Combined) working capital cycle deteriorated to 149 days as on March 31, 2024 (PY: 112 days) considering elongation in inventory days to 116 days as on March 31, 2024 (PY: 100 days) and collection period to 78 days as on March 31, 2024 (PY: 70 days).

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 profits in the value chain. 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, which was seen in FY24.
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.

Sluggish demand scenario and fragmented nature of CPD industry
India is the world's largest centre for cutting and polishing of diamonds accounting for over 90-95% of the total world's polished diamond consumption. However, the CPD industry in India is highly fragmented with numerous unorganised players, in addition to large integrated G&J manufacturers, leading to a high level of competition. As a result of global inflationary trends, adverse macroeconomic 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) continues to further impact the demand for natural diamonds. Consequently, total CPD exports from India declined by 28% to US$15.97 billion (PY: US$22.04 billion) in FY24.
The demand-supply imbalance has pressured pricing of polished diamonds, leading to a price correction estimated at 5-10% for diamonds below 0.3 carats, 20-30% for 0.3-3 carat diamonds, and 10-20% for diamonds above 3 carats in CY23. This imbalance and price correction have adversely affected export value. High inventory levels at the start of FY24 and subsequent fall in prices of CPD have impacted the scale and profit margins of CPD entities, resulting in higher-than-anticipated decline in TOI, profitability and gross cash accruals (GCA).

Liquidity: Adequate

KG on combined basis has reported a GCA of ₹402.21 Crore in FY24 (PY: ₹1394.40 crore). Current ratio improved to 2.41x for the year ended March 31, 2024 (PY: 2.08x). Unencumbered cash/bank balance stood at ₹253.80 crore as on March 31, 2024, on a combined basis. KGPLs (Standalone) average of maximum working capital utilisation stood moderate at ~46.88% in the 12-month ended September 2024. Further, as confirmed by the lead banker, for September end, the limit utilisation was almost negligible. Furthermore, KGPL has approached the bank to reduce its sanctioned fund based working capital limits from ₹2400 crore to ₹1500 crore. Overall gearing stood comfortable and improved for ended March 31, 2024, at 0.28x (PY: 0.40x), which gives head room to KG to have flexibility of borrowing, if needed. Also, the cash flow from operations stood positive at ₹869.06 crore in FY24.
Hence, moderated GCA against low long-term repayment obligations of Rs.8 to 9 crore in near term, healthy current ratio, and comfortable cash balance, resulting in adequate liquidity position for the company.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

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 private limited company in September 2007. KG offers a wide range of CPDs across shapes (such as rounds, marquise, pears, princess, emeralds, hearts, and ovals), clarity (IF to S12), colours (D to M) and sizes (varying from one cent to 10 carat). KGPL sold over 2.13 million polished carats in FY24 (PY:2.91 million). KG's operations are well-integrated from sourcing of rough diamonds to CPDs to diamond studded jewellery manufacturing. KG has established itself as one of the largest players in CPD in India. KGPL's manufacturing units are in Surat spreading from ~10.55 lakh sq. ft. KGPL has sourcing arrangement for rough diamonds with all leading miners - De-Beers, and Okavango.

Kiran Jewelry (KJ)
Majority of KJ's sales are made in the USA market through Unique Designs Inc. Manufacturing facility of KJ SEZ unit is in Surat, Gujarat. KJ is engaged in manufacturing diamond studded jewellery. KJ caters to export markets majorly the USA, Malaysia and India. KJ sources majority of its raw material from KGPL. KJ's revenue accounted for ~2% of TOI of the group in FY24.

Kiran Jewels (India) (KJI)
It is another group entity of KG, which is into diamond studded jewellery manufacturing. KJI's manufacturing facility is in Surat, Gujarat. KJI largely caters to domestic markets. KJI contributed ~2.84% of TOI of the group in FY24.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	426.04	389.74	191.67
PBILDT	29.07	38.08	NA
PAT	13.64	18.88	NA
Overall gearing (times)	1.52	1.24	NA
Interest coverage (times)	3.80	4.93	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Brief Financials (₹ crore) (Combined)**	March 31, 2022 (UA)	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	23,302.86	22,807.12	19,324.20
PBILDT	1,782.24	1,843.96	646.98
PAT	1,195.35	1,274.55	302.69
Overall gearing (times)	0.46	0.40	0.28
Interest coverage (times)	15.03	10.03	3.89

UA: Unaudited; Note: these are latest available financial results
**TOI excludes inter-party transactions

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Long Term		-	-	-	115.00	CARE A; Negative
Non-fund-based - ST-Forward Contract		-	-	-	5.00	CARE A2+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based-Long Term	LT	115.00	CARE A; Negative	-	1)CARE A+; Negative (29-Feb-24) 2)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)
2	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2+	-	1)CARE A1 (29-Feb-24) 2)CARE A1 (09-Oct-23)	1)CARE A1 (07-Nov-22) 2)CARE A1 (10-Oct-22)	1)CARE A1 (07-Oct-21)

LT: Long term; ST: 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 lender-wise details of bank facilities please click here

Note on complexity levels of 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 for clarifications.

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About us:
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