KP Sanghvi & Sons LLP

January 15, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	4.28 (Reduced from 83.13)	CARE BBB; Stable	Downgraded from CARE BBB+; Stable
Long-term / Short-term bank facilities	700.00 (Reduced from 800.00)	CARE BBB; Stable / CARE A3+	Downgraded from CARE BBB+; Stable / CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The downgrade in the rating assigned to bank facilities of KP Sanghvi & Sons LLP (KPS) considers 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 cut and polished diamonds (CPD) industry, which is expected to continue in the near term. The scale of operations is further expected to decline in FY25. The firm continues to hold significant level of inventory amidst fall in realisation.

The subdued demand for the CPD amidst the shifting consumer preferences towards lab-grown diamond, geo-political issues and inflation, is expected to impact the firm's performance in medium term. The firm's performance in FY24 was significantly lower-than-envisaged levels considering operational performance and increased cost of borrowings. Additionally, H1FY25 performance remained subdued. Though the firm had been impacted by the negative industry outlook, it continues to benefit from promoters' rich experience and its long track record of operations, thus benefitting from repetitive orders.

Ratings continue to remain constrained by elongated working capital cycle due to high inventory level and its moderate debt metrics. Moreover, the firm continues to remain susceptible to pricing risk and foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in total operating income (TOI) and operating margin above 4.5% on a sustained basis.
- Further improvement in capital structure with overall gearing not more than 0.75x.
- Decline in the inventory levels and receivables leading to improvement in the working capital cycle to below 130 days on a sustained basis.

Negative factors

- Significant decline in TOI and decline in operating margin from the envisaged level.
- Further decline in gross cash accrual (GCA) or any losses.
- Stretch in liquidity position backed by higher working capital cycle and lower headroom availability in utilisation of bank limits.

Analytical approach: Standalone

Outlook: Stable

The outlook is stable despite the slowdown in industry, as the firm continues to benefit from its long track record of operations and expertise from its experienced promoters resulting in bagging repetitive orders from customers.

Detailed description of key rating drivers:

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

Key strengths

Long track record of operations and rich experience of partners in G&J Industry

The rich experience of the partners and the groups' long track record of operations of over five decades continues to enable the firm to bag repetitive orders from its longstanding customers. KPS was set up as a diamond trading organisation in 1965 by Late Hajarimal Sanghvi and his brother, Babulal Sanghvi. KPS is a global conglomerate, involved in diamond processing and jewellery manufacturing. KPS caters to markets, such as the US, Europe, Hong Kong, Middle East, and India, through their headquarters in Mumbai and network of sales offices in New York, Dubai, Hong Kong, Mumbai, and Surat. KPS is recognised as a Three Star Export House by the Government of India. The firm has won various prestigious export awards from Gem & Jewellery Export Promotion Council.

Sightholder status from 1993

Accredited as Dee Beers Sightholder since 1993, KPS is also a recognised buyer for Rio Tinto's Select Diamantaire, Canadian Diamond's Code of Conduct & Alrosa Alliance Member; Preferred Purchaser, besides being a member of the Responsible Jewellery Council. The sight holder status benefits the firm in terms of pricing.

Key weaknesses

Deteriorating performance amidst negative industry outlook:

The demand for CPD continues to remain low backed by inflation, geo-political issues, economic uncertainties, and increasing preferences for lab-grown diamond due to its affordability and similarity. These industry challenges are expected to continue to have adverse impact on the performance of the firm in terms of both TOI and earnings before interest, taxation, depreciation, and amortisation (EBITDA). The operating profitability is expected to remain low considering the declining sales which remains low in absorbing the operational cost, impacting the firm's operating margin. However, the firm has reduced procurement in the current year despite the decline in rough diamond prices and also the high inventory level of the firm.

The TOI has declined by 21% in FY24 at ₹2,038.92 crore in FY24 (FY23: ₹2,596.75 crore) owing to both decline in volumes and realisation. As on January 13, 2025, the firm has achieved total revenue of ₹1,075.00 crore. The operating margin declined at 3.28% in FY24 (FY23: 4.08%). The operating margin though stood at 4.41% in H1FY25 with absolute EBITDA low at ₹33.33 crore, which is significantly lower than previous year (H1FY24: ₹59.90 crore; H1FY23: ₹62.13 crore; FY24: ₹66.83 crore; FY23: ₹105.89 crore).

Continuance of high inventory level driving the working capital cycle

Although the inventory level has marginally reduced as of November 2024, it continues to remain high amidst the slowdown in the CPD industry. The inventory level stood at ₹1,170.21 crore as of November 2024 (March 31, 2024: ₹1,303.70 crore. The higher inventory days have resulted in working capital cycle to be elongated at 209 days in FY24 (FY23: 155 days).

Modest debt coverage indicators

The debt profile of the firm majorly comprises working capital facility. Given the low operating profitability, the debt coverage indicators are expected to remain modest. The high cost of borrowings and the maximum utilisation of working capital limits at 81% in the last 12 months, ended November 30, 2024, has resulted in finance cost to increase in FY24. As a result, the interest coverage deteriorated to 1.20x in FY24 (FY23: 3.07x). However, the marginal reduction in cost of borrowings and major prepayment of Guaranteed Emergency Credit Line (GECL) loan in current financial year will support the firm in reducing the finance cost in medium term. The prepayment of GECL loan is funded by debtor realisation, which has reduced to ₹91.94 crore as on November 30, 2024, from ₹298.11 crore as on March 31, 2024 (As on March 31, 2023: ₹528.07 crore). Overall gearing continues to remain moderate at 1.04x as on March 31, 2024 (As on March 31, 2023: 1.10x).

Susceptible to pricing risk and foreign exchange fluctuations

KPS majorly imports rough diamonds, which require long time for processing, thus resulting into higher inventory holding period. Hence, amidst the slow market demand and continuance of high inventory, the firm is vulnerable to pricing risk. The declining trend of polished diamond prices amidst the high inventory continues to remain monitorable, given the inventory write-offs been booked in FY24. Against these imports, the KPS also has export exposure of 56% of revenues as on September 30, 2024 (FY24: 51%; FY23: 52%). Given that the sales transaction is in dollar with major domestic customers as well, the foreign exchange risk remains mitigated to significant extent by natural hedge.

Liquidity: Adequate

The liquidity of the firm is adequate considering low repayment given that the firm has prepaid majority its term loan obligations via realisation of debtors. Though the GCA is expected to remain low, the GECL loan is almost paid. The GCA for FY24 stood at

₹11.54 crore and FY25 will be in line with previous year considering subdued demand in the industry. Moreover, the firm's maximum utilisation of fund-based limit stood at 81% for last 12 months ended November 30, 2024, with over ₹100.00 crore headroom availability. The cash flow from operations turned positive in FY24 at Rs. 119 crores compared to negative ₹124.27 crore in FY23. In addition to this, the liquidity is also supported by major suppliers being group companies, which allows sufficient credit period to KPS of over 100 days. Despite this, the working capital cycle continues to remain elongated at 209 days in FY24 (FY23: 155 days) owing to higher inventory levels.

Applicable criteria

- 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

Late Hajarimal Sanghvi and his brother, Babulal Sanghvi, set up a diamond trading organisation in 1965, currently known by the name, KP Sanghvi Group. KPS is the flagship company of the group involved in diamond processing and jewellery manufacturing and is one of the few large-sized manufacturers and exporters of CPDs in India. KPS is recognised as a Three Star Export House by the Government of India and is accredited as Dee Beers Sightholder since 1993. It is also a recognised buyer for Rio Tinto Select Diamantaire, Canadian Diamond Code of Conduct & Alrosa Alliance Member; Trademark minor "Dominion Diamond", besides being a member of the Responsible Jewellery Council. The manufacturing facilities are in Surat, Gujarat, where the old facility is in Umiya region and the new facility is in Icchapore region of the city, operating with over 1,400 employees. The group also comprises few other entities, engaged in similar businesses of manufacturing and trading diamonds and jewellery. KPS has two subsidiaries, KP Sanghvi International Private Limited (KPSIPL) (wholly owned) and KP Sanghvi Jewels Private Limited (KPSJPL) (KPS holds 67% in KPSJPL).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	2,596.74	2,038.92	756.26
PBILDT	105.89	66.83	33.33
PAT	42.21	2.10	NA
Overall gearing (times)	1.10	1.04	NA
Interest coverage (times)	3.07	1.20	1.32

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

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 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2026	4.28	CARE BBB; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	700.00	CARE BBB; Stable / CARE A3+

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 - LT/ ST-EPC/PSC	LT/ST	700.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (05-Jan-24)	1)CARE A-; Stable / CARE A2+ (04-Jan-23)	1)CARE A-; Stable / CARE A2+ (23-Mar-22)
2	Fund-based - LT-Term Loan	LT	4.28	CARE BBB; Stable	-	1)CARE BBB+; Stable (05-Jan-24)	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Mar-22)

LT: Long term; LT/ST: 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 - LT-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	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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