August 09, 2024

Kantilal Chhotalal: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term: Fund Based Limits	70.00	70.00	[ICRA]BBB+ (Stable); /[ICRA]A2; reaffirmed
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of Kantilal Chhotalal (KC) continue to derive comfort from the extensive experience of its partners in the polished diamond trading and studded jewellery business as well as established relationships with its customers and suppliers. The ratings also favourably factor in the firm's comfortable financial profile, characterised by a low gearing and satisfactory coverage metrics.

The cut and polished diamond industry (CPD) has been facing demand headwinds since the last two fiscals due to inflationary pressure across the globe. Nonetheless, the firm reported a YoY revenue growth of 10% in FY2024 (as per provisional estimates), led by increased focus on the jewellery segment. With demand pressure continuing in the current fiscal, the firm's revenues are expected to remain range-bound in FY2025. The ratings continue to remain constrained by KC's low operating profit margin (OPM) due to limited value addition in the diamond trading business and stiff competition from other players, resulting in limited pricing power. The ratings further remain constrained by the susceptibility of revenues and margins to foreign exchange (forex) rate fluctuations as the firm derives 15-25% of its revenues from the export market, mainly Hong Kong, the US and the UAE. The ratings also continue to consider the risks associated with the constitution of KC as a partnership concern, wherein any substantial withdrawal from the capital account may impact its capital structure.

The Stable outlook on the long-term rating reflects ICRA's opinion that KC's credit profile is expected to remain comfortable, supported by its low working capital intensity of operations, and limited capital expenditure (capex) requirements.

Key rating drivers and their description

Credit strengths

Extensive experience of partners in trading of polished diamonds – KC has been involved with trading of polished diamonds since 1941. The Managing Partner, Mr. Ashish Mehta, has over three decades of experience in the diamond trading business.

Established relationships with customers and suppliers – The firm has established relationships with its diversified clientele, which mainly comprises retailers and consumers. The customer concentration risk remains low with the top-10 customers accounting for ~24% of its revenues in FY2024. KC also has an established network of suppliers, with the top-10 suppliers accounting for ~29% of total purchases in FY2024.

Comfortable financial profile with limited reliance on external debt – KC's reliance on debt has remained low as the company's operations are primarily concentrated in the domestic market, where the working capital cycle is low. The firm has been able to manage its working capital position well, as evident from its working capital intensity of operations (net working capital vis-à-vis the operating income) of 14.9%, as on March 31, 2024 (as per provisional estimates; vis-a-vis 17.1% as on March 31, 2023), driven by a conservative credit period extended to the customers and controlled inventory holding. Limited reliance on external debt and regular capital infusion have translated into a comfortable capital structure, as reflected by a gearing of below 0.1 times and total outside liabilities vis-a-vis its tangible net worth of 0.5 times as on March 31, 2024 (as per provisional estimates). The coverage indicators also remain satisfactory, as evident from an interest cover of 18.3 times in FY2024.

Credit challenges

Demand headwinds in the CPD industry, low operating profit margin – The CPD industry has been facing demand headwinds since last two fiscals due to inflationary pressure across the globe. Notwithstanding this, the firm reported a YoY revenue growth of 10% in FY2024 (as per provisional estimates), led by increased focus on the jewellery segment. With demand pressure continuing in the current fiscal, the firm is expected to report range-bound revenues in FY2025. The firm's OPM continues to remain modest due to low value addition in the CPD trading business, which forms a dominant share of the total revenues of KC. The OPM stood at 3.6% with a net profit margin of 2.4% in FY2024. Besides, the firm's operations remain exposed to the volatility in polished diamond prices and intense competition prevailing in the industry, which affect its pricing flexibility to a large extent.

Revenues and profitability susceptible to fluctuation in forex rates – Being a net exporter, KC's revenues as well as profit margins are susceptible to forex fluctuations in the absence of any active hedging mechanism. The firm has forward contract policy in place, however, it keeps the position open generally. The firm's operations also remain exposed to the volatility in polished diamond prices, which affect its pricing flexibility.

Inherent risks associated with the partnership nature of firm – The firm is exposed to the risk of capital withdrawal by the partners, which could impact its capital structure. Though capital infusion in the last two fiscals provided funding support, there were also instances of capital withdrawals by the partners in the past. Any significant withdrawal of capital by the partners may adversely impact the capital structure and the liquidity position of the firm.

Liquidity position: Adequate

The liquidity profile of the firm remains adequate, supported by undrawn fund-based working capital limits of Rs. 68.9 crore and unencumbered cash and bank balances of Rs. 31.8 crore as on March 31, 2024, which increased to Rs.103 crore as on July 31, 2024, following recovery in collections and continued controlled inventory holding. The same are invested in liquid mutual funds. Besides, the average working capital utilisation during the 12-month period ended on March 31, 2024, remained moderate at 25%. As the firm has no major capex plans, the liquidity position of the firm is expected to remain adequate in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade KC's ratings if its revenues and profits grow substantially on a sustained basis, and its liquidity position improves along with healthy coverage indicators.

Negative factors – Pressure on KC's ratings could arise if there is any moderation in the firm's profitability metrics or revenues, or weakening in its overall financial profile. Any strain on the liquidity position of the firm arising from a deterioration in its working capital cycle of operations or large capital withdrawals may trigger ratings downgrade. Weakening of the interest cover to below 4 times on a sustained basis would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Cut & Polished Diamonds](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Kantilal Chhotalal (KC), established initially as a proprietorship concern by Late Kantilal Chhotalal Mehta in 1941, was converted into a partnership firm in 1976. It trades in polished diamonds as well as manufactures and trades in studded jewellery. The business operations are managed by four partners — Mr. Ashish Kantilal Mehta, Mr. Milan Rajnikant Mehta, Mr. Parthiv Mehta and Mr. Akshar Milan Mehta.

The Group has other investment companies and entities involved in related businesses. KC Jewellery Manufacturing LLP, a Group entity based in Mumbai, exclusively manufactures jewellery for KC. KC Diamonds (HK) Limited, another Group entity domiciled in Hong Kong, acts as the marketing partner for KC.

Key financial indicators

Standalone	FY2023 (Audited)	FY2024*
Operating income	1,033.3	1,139.8
PAT	26.0	27.1
OPBDIT/OI	4.4%	3.6%
PAT/OI	2.5%	2.4%
Total outside liabilities/Tangible net worth (times)	0.9	0.5
Total debt/OPBDIT (times)	0.6	0.2
Interest coverage (times)	10.7	18.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	August 9, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term / short term-others-fund based	Long-Term/Short Term	70.00	[ICRA] BBB+ (Stable)/ [ICRA]A2	-	-	06-July-2023	[ICRA]BBB+ (Stable)/[ICRA]A2	06-Sep-2022	[ICRA] BBB+ (Stable)/[ICRA]A2	-	-
Fund based Limits	Short-term	37.50	-	-	-	-	-	-	-	June 28, 2021	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term - Fund based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Pre-shipment Credit/ Post shipment Credit	-	-	-	70.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Ronak Vadher
+91 022 61693341
ronak.vadher@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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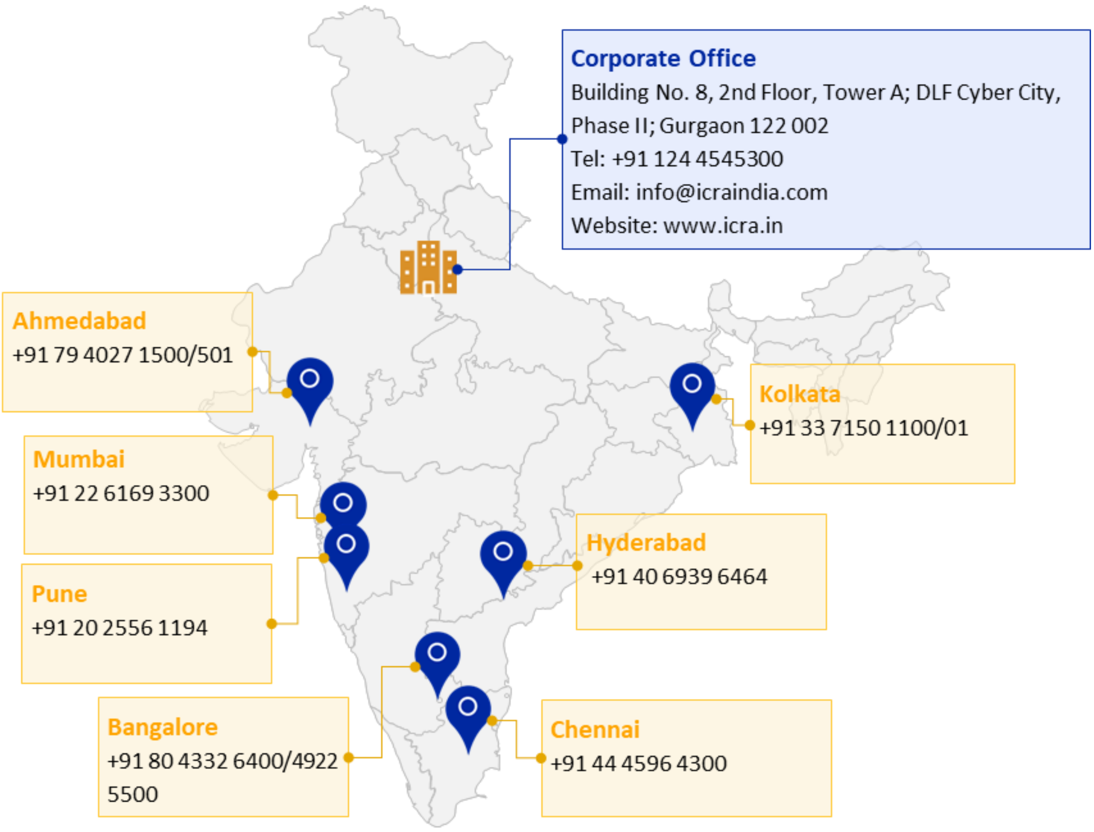

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