

November 17, 2017

## Kiran Gems Private Limited

### Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, fund-based limits	2,400.00 (reduced from 2,475.00)	[ICRA]A+ (stable); Reaffirmed
Short-term, non fund-based limits	210.00 (revised from 114.00)	[ICRA]A1; Reaffirmed
Long-term / short-term, unallocated limits	15.00 (reduced from 36.00)	[ICRA]A+ (stable) / [ICRA]A1; Reaffirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 2,400 crore<sup>1</sup> (reduced from Rs. 2,475 crore) fund-based limits and short-term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 210 crore (revised from Rs. 114 crore) non fund-based limits of Kiran Gems Private Limited (KGPL)<sup>2</sup>. ICRA has also reaffirmed [ICRA]A+ and [ICRA]A1 ratings for the Rs. 15 crore (reduced from Rs. 36 crore) unallocated bank limits of KGPL. The outlook on the long-term rating is 'stable'. The mentioned bank facilities have been rated both on long term as well as short term scale. As such the total utilization of these limits should not exceed Rs. 15 crore at any point of usage.

### Rationale

The ratings reaffirmation continues to factor in KGPL's established brand and dominant market position in the Indian Cut and Polished diamond (CPD) industry, being one of the largest players in the CPD industry in terms of scale of operations and its comfortable financial profile as reflected by consistent growth in operating income and profitability since last five fiscal years, favourable capital structure and comfortable coverage indicators. The ratings also positively factor in the vast experience of the promoters in the CPD industry and its vertically integrated operations through group companies (Kiran Jewelry etc.) which are engaged in manufacturing of diamond studded jewellery. ICRA also draws comfort from the demonstrated support by the promoters in the past in the form of equity infusion. The ratings also take into account KGPL's strong sourcing arrangements on the back of its long-standing relationship with the diamond mining major companies, De Beers (as sight holder since 2005), Alrosa, Dominion Diamond Corporation and Rio Tinto.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

The ratings, however, continue to remain constrained by susceptibility of the company's margins to volatility in rough and polished diamond prices, intense competition in the CPD industry due to its fragmented nature and high working capital intensity of operations which is typical in the CPD business. The ratings also take into account the vulnerability of company's profitability to foreign exchange fluctuations, as well as vulnerability of revenue growth to the demand scenario in key export markets. While export demand witnessed a healthy revival in FY2017, so far, in the current fiscal, the industry has witnessed a demand pressure in the key CPD export markets; the same remains a key rating sensitivity.

### Key rating drivers

#### Credit strengths

- **Established brand and dominant market position with relatively large operating base** – Over the last three decades, KGPL has established itself as one of the market leaders in the CPD industry. Currently, the company's operations have achieved a fairly large scale and size as reflected from a turnover of Rs. 8,752.1 crore as of FY2017. A sizeable operating base has enabled the company to enjoy economies of scale thus enhancing its competitive position in the industry.
- **Long experience of the promoters in the CPD industry** – The company's promoters have been operating in the CPD industry for more than three decades. Their long experience has helped the company to command an established position in the CPD industry.
- **Sight holder status with De Beers and other primary sources lends competitiveness to business operations** – The CPD industry depends heavily on the global miners like De Beers, Alrosa, Rio Tinto, etc., for sourcing rough diamonds. However, due to stringent qualification requirements of the miners, only a few companies across the globe have a direct access to the rough supply from these miners. KGPL features amongst these companies and is a sight holder with De Beers while also having an access to other primary sources of rough supply. This lends significant competitiveness to the company's operations in a highly competitive and fragmented CPD market.
- **Favourable capital structure and comfortable interest coverage ratio** – During FY2017, KGPL's capital structure (1.04 times) continued to remain favourable while interest coverage ratio (3.89 times) remained comfortable on the back of stable operating performance and relatively lower debt levels.

#### Credit weaknesses

- **Business operations vulnerable to demand slowdown in key CPD export markets** – Due to demand slowdown in the key export markets, KGPL had posted relatively subdued operating performance in FY2016 thus reflecting company's vulnerability to sluggish demand conditions in key CPD export destinations.
- **Modest profitability indicators** – The CPD industry is highly fragmented and low value addition in nature leading to stiff competition. This has resulted in modest profitability indicators for KGPL in the past and they are expected to remain under pressure going forward.
- **Business operations susceptible to adverse movement in foreign exchange rates** – With almost 90% of total revenues from export earnings, KGPL's exposure to foreign currency has remained high over the years thus exposing the company to the vagaries of currency markets. However, since the company's exports are backed by equivalent amount of imports on most of the occasions, the company enjoys a natural hedge to a large extent. Additionally, the company also hedges its foreign currency exposures through forward contracts and options.
- **High working capital intensity** – The company's working capital intensity remained high in FY2017 (NWC/OI: ~39%) due to the inherently elongated nature of the CPD business.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Rating Methodology for Entities in the Indian Gems & Jewellery Industry – Cut & Polished Diamonds](#)

**About the company:**

Kiran Gems Private Limited is the flagship company of the Kiran Group. Promoted by Mr. Vallabhbhai Patel, Mr. Babubhai Lakhani and Mr. Mavjibhai Patel, and closely held by the promoters/promoters' family, KGPL commenced business as a partnership firm (erstwhile Kiran Exports) in 1985. It was incorporated in September 2007 as a private limited company. KGPL is engaged in manufacturing of CPDs of all shapes (such as rounds, marquise, pears, princess, emeralds, hearts, and ovals). KGPL has established itself as one of the world's largest manufacturer of CPDs and exports them primarily to Hong Kong, United Arab Emirates, United States of America, Israel and Belgium. The company's manufacturing facilities are located at Surat and Ahmedabad in Gujarat.

In FY2017, the company reported a profit after tax (PAT) of Rs. 272.4 crore on an operating income of Rs. 8,752.4 crore, as compared to a PAT of Rs. 185.6 crore on an operating income of Rs. 7,721.6 crore in the corresponding quarter of the previous year.

**Key Financial Indicators (Audited)**

	FY2016	FY2017
Operating Income (Rs. crore)	7,721.58	8,752.42
PAT (Rs. crore)	185.60	272.38
OPBDIT/ OI (%)	6.48%	6.11%
RoCE (%)	13.14%	13.46%
Total Debt/ TNW (times)	1.29	1.04
Total Debt/ OPBDIT (times)	4.30	3.76
Interest coverage (times)	2.54	3.89
NWC/ OI (%)	42.9%	39.1%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

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

**Any other information:** Not applicable

**Rating history for the last three years:**
**Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	-
				<b>November 2017</b>	<b>September 2016</b>	<b>July 2015</b>	<b>-</b>
1	Pre-shipment Credit / Post-shipment Credit	Long Term	2,400.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Forward Contract	Short Term	210.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
3	Unallocated	Long Term / Short Term	15.00	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
-	Pre-shipment Credit / Post-shipment Credit	-	-	Upto 1 year	2,400.00	[ICRA]A+ (Stable)
-	Forward Contract	-	-	Upto 1 year	210.00	[ICRA]A1
-	Unallocated	-	-	-	15.00	[ICRA]A+ (Stable) / [ICRA]A1

Source: the company

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