

## Kanani Industries Limited

December 27, 2018

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based	25.00	25.00*	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure - I

### Rationale

The rating reaffirmation continues to factor in the extensive experience of the promoters with more than 35 years of experience in the gems and jewellery industry as well as Kanani Industries Limited's (KIL's) comfortable capital structure with a gearing of 0.69 time as on September 30, 2018.

The rating is, however, constrained by the company's weak financial performance as depicted by its fluctuating turnover over the last five fiscals, low profitability and weak debt coverage metrics (as indicated by net cash accruals (NCA)/Total Debt of 2.00% and Total Debt/OPBDIT of 16.32) in FY2018. The rating is also constrained by the company's high working capital intensive nature of operations (as indicated by net working capital (NWC)/operating income (OI) of 42% as on September 30, 2018) emanating from the stretched receivables, with debtor days at 205 in H1 FY2019. ICRA notes the increased supplier concentration risk with the top two suppliers driving 100% of its purchases in FY2018. ICRA also notes the susceptibility of the company's profitability to adverse fluctuations in raw material prices and foreign exchange rates. Intense competition in the jewellery industry further restricts KIL's pricing flexibility.

### Key rating drivers

#### Credit strengths

**Extensive experience of management in gems and jewellery industry** - KIL's operations are managed by the Mumbai-based Kanani family, who have vast experience of more than three decades in the gems and jewellery industry. This has enabled the company to establish its position in the market.

**Strong net worth base supports favourable capital structure** - The company's capital structure remained comfortable over the years with gearing of 0.70 and 0.69 time as on March 31, 2018 and September 30, 2018, respectively. The favourable capital structure was supported by the company's strong net worth position with a tangible net worth of Rs. 42.19 crore as on September 30, 2018.

#### Credit challenges

**Financial profile characterised by stagnant revenues, thin profitability and weak coverage indicators** - The company's OI has been stagnant over the last two years. KIL registered a decline of 0.41% in its OI to Rs. 80.65 crore in FY2018 from Rs. 80.98 crore in FY2017. The operating profit margin (OPM) too remained modest at 2.21% in FY2018 and 3.20% in H1 FY2019 on account of increased raw material consumption cost. The net profit margin (NPM) also remained subdued at 0.50% in FY2018 and 1.32% in H1 FY2019, following increased financial charges. Thin profitability as well as high interest

charges has led to weak coverage indicators as reflected by the interest coverage ratio and debt service coverage indicators, which remained at 2.48 times and 2.24 , respectively, as on September 30, 2018.

**High working capital intensity due to stretched receivables** - The company provides a credit period of 180 days to its customers and avails a credit period of 30 to 60 days from its suppliers. The company's debtor days remained high at 214 days in FY2018 and 205 days in H1 FY2019, which translated into high working capital intensity with NWC/OI at 49% in FY2018 and 42% in H1 FY2019.

**Supplier base remains concentrated in FY2018** - The company's supplier concentration risk remained high with the entire purchase of polished diamonds from two suppliers, based out of Hong Kong in FY2018. Nevertheless, KIL's established relationships with these suppliers mitigate the risk to an extent.

**Susceptibility of margins to volatility in raw material prices and forex rates** - Polished diamonds are the primary raw materials for KIL. Thus, the company's profitability remains vulnerable to the variations in polished diamond prices. Further, KIL has an inherent forex fluctuation risk due to its export-dominated sales profile and the absence of hedging mechanisms.

**Intense competition from unorganised and organised players** - The studded jewellery industry is highly fragmented and characterised by intense competition. KIL not only faces stiff competition from dominant unorganised players, but also from well-established organised players.

## Liquidity position

KIL had a free cash balance of Rs. 0.72 crore as on September 30, 2018. The average working capital utilisation stood at 92% during the 15-month period ended September 2018. Thus, KIL has limited cushion available in the form of undrawn working capital limits. Although the company does not have any capex plans or term loans outstanding as on date, the liquidity position remains moderately stretched because of its high working capital intensity and low profitability levels.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statement of the issuer

## About the company

Originally incorporated as Shivalaxmi Mercantile Company Limited on March 22, 1983, KIL, a public limited company, started manufacturing diamond-studded silver jewellery from January 2008. Polished diamonds are the company's primary raw material, procured mainly through imports, while silver is purchased from the domestic market. KIL's sales primarily include exports to Hong Kong. To further increase its presence in the Hong Kong market, KIL set up a 100% wholly-owned subsidiary, KIL International Limited, which began operations from July 04, 2011, by trading in diamonds and jewellery.

The company reported a net profit of Rs. 0.40 crore on an OI of Rs. 80.65 crore in FY2018 and a net profit of Rs. 0.61 crore on an OI of Rs. 46.23 crore in H1 FY2019 (provisional).

## Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Provisional)
Operating Income (Rs. crore)	80.98	80.65	46.23
PAT (Rs. crore)	0.39	0.40	0.61
OPBDIT/ OI (%)	2.10%	2.21%	3.20%
RoCE (%)	2.61%	2.52%	3.82%
Total Debt/ TNW (times)	0.55	0.70	0.69
Total Debt/ OPBDIT (times)	13.29	16.32	9.83
Interest Coverage (times)	1.51	1.49	2.48
NWC/ OI (%)	40%	49%	42%

Source: Company

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

## Any other information: None

## Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Date & Rating December 2018	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2018 November 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016
1 Fund-based - Working Capital Facilities	Short Term	25.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4; suspended	-

## 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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Foreign Bills Purchased/Discounted/Rupee Advance against Collected Bills	NA	NA	NA	25.00	[ICRA]A4

Source: Company

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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