

Rating Rationale

Brickwork Ratings assigns 'BWR A4' for the Bank Credit Facilities amounting to ₹ 7.50 Cr of K.D. Kothari & Co

Brickwork Ratings (BWR) has assigned the following **Rating¹** for Short-term Bank Credit facilities for M/S K.D. Kothari & Co ("*KDKC*" or "*the Company*").

Facility	Limits (₹ Cr)	Tenure	Rating
<u>Fund Based</u>			
Packing Credit(PCFC)	1.50	Short Term	BWR A4 (Pronounced BWR A Four)
FBP/UFBP/FCBP/FCBD	5.00		
Stand By Limit- PSC Exporter Gold Card	1.00		
Total	7.50	INR Seven Crores & Fifty Lakhs only	

BWR has principally relied upon the audited financial results of M/S K.D. Kothari & Co up to FY 13 and further projected financials, publicly available information and information/clarification provided by the Company management.

The ratings assigned to the bank facilities of M/S K.D. Kothari & Co (KDKC) are primarily constrained on account of its limited scale of operations in a highly competitive and fragmented diamond trading industry, dependence on export markets which is characterized by sluggish demand and its constitution as a partnership firm owing to the risk of withdrawal of capital. The ratings however continue to factor in, the vast experience of promoters in diamond trading business, majorly dealing in small carat size diamonds having stable demand, low gearing & healthy coverage indicators, standing relationship with customer and supplier and its moderate debt level.

Background

KDKC was established as a partnership firm in 1990 by Mr. Deepak R. Kothari. Company is primarily engaged in the trading of cut and polished diamonds in the range of 0.005 to 2 carat. The promoters, Mr. Deepak R. Kothari have experience of more than four decades in the gems and jewellery industry. KDKC's majority of the revenue is generated from the exports market (more than 98% of total turnover during FY13)

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Financial Performance

In FY13 (refers to the period April 12 to March 13), the company reported a y-o-y ~7% de-growth in total income from operations to Rs.42.07 crore from Rs. 45.14 crore mainly owing to subdued demand from prime export destinations like Hong Kong, Belgium, UAE and few western countries like USA, UK and the European continent coupled with lower realisations received for polished diamonds. However, the profitability margins of the company improved aided by stable prices of rough diamonds in FY13. KDKC's EBITDA margin improved to 9.72% in FY 13 against 3.38% in FY 12. Furthermore, the company's net-worth stood at Rs.6.48 crore as on March 31, 2013. An improvement in the profitability levels rendered improvement in interest coverage and debt service coverage in FY13 as compared to FY12.

The working capital cycle of the company deteriorated from 57 days to 71 days mainly due to elongation in the average collection period and average creditors period. While the collection period deteriorated from 151 days in FY12 to 201 days in FY13, average creditors period elongated from 116 days in FY12 to 140 days in FY13. Consequently, the average working capital utilisation has been moderate at around 69% between Jan 2013 and Dec 2013. The Company has no term debt as on date, and avails only working capital loan to fund the liquidity gap, in addition to Unsecured Loans to the extent of Rs. 2.03 Cr in FY 13. Thus, the gearing ratio is low, even if USLs are not classified as quasi-equity. Company's inventory levels are optimal around one to two weeks since 100% of sale is order backed. The firm generally maintains an average 7 days of inventory for polished diamond. As firm deals in small carat size diamonds which are having a stable demand, inventory cycle is smooth.

Rating Outlook

The ability of KDKC to scale up operations, efficiently manage the working capital cycle and improve its overall financial profile remains the key rating sensitivity

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