

May 12, 2010

**CARE REAFFIRMS THE RATING ASSIGNED TO THE BANK FACILITIES OF M/S KARP MFG CO.**

CARE has reaffirmed the rating of '**CARE BBB–(SO)**' [**Triple B Minus (Structured Obligation)**] assigned to the Long-term Bank Facilities of M/s Karp Mfg Co, aggregating Rs.70 crore This rating is applicable to facilities having tenure of more than one year. Facilities with this rating are considered to offer moderate safety for timely servicing of debt obligations. Such facilities carry moderate credit risk.

<b>Instrument</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>
Long-term Bank Facilities	70.00	'CARE BBB– (SO)'
<b>Total</b>	<b>70.00</b>	

**Rating Rationale**

The rating is based on credit enhancement in the form of irrevocable corporate guarantee given by KMC's parent company, Karp Impex Ltd (KIL) to KMC's lenders with respect to KMC's debt repayment obligations. In the event of default, KIL, the guarantor will repay the dues to the lenders of KMC, within five business working days after demand on KIL.

The rating derives strength from the vast experience of KIL's promoters in diamond processing and DTC sightholder status. The rating also considers ability of the company in processing high-carat diamonds and presence of the group companies in Hong Kong and Belgium.

The rating is however constrained by high collection period leading to long working capital cycle, higher dependence on working capital borrowing leading to high overall gearing, negative operating cash flow, low profitability margins, geographic concentration of sales, uninsured debtors, increasing debtors to sales ratio, support provided to subsidiary by way of corporate guarantee and high correlation of fortunes of Gems & Jewellery (GJ) sector to economic cycles.

KIL's ability to maintain its profitability margins and manage its working capital requirements amidst strong competition within the sector and expected revival of global markets are the key rating sensitivities.

**Company Profile**

Karp Mfg. Co. (KMC) is a partnership firm with KIL and Karp Diamonds Pvt Ltd having 99% and 1% share in profits/losses respectively in the firm. KMC is engaged in the business of export of Cut & Polished (C&P) diamonds and processing of rough diamonds with main emphasis on large-sized diamonds. KMC operates as a 100% Export Oriented Unit (EOU).

On a total income of Rs.171.11 crore, KMC earned a PAT of Rs.27.91 crore in FY09. Profit before tax of the firm declined by 41.05% p-op in H1FY10 from Rs.16.59 crore in H1FY09 to Rs.9.78 crore in H1FY10.

### **About Guarantor**

KIL has been in the business of C&P diamonds since 1983 in the form of a partnership firm (converted to a limited company in 1995). KIL is a DTC sight holder for the period 2008-2011. It is one of the few manufacturers of "Forever" mark diamonds for DTC. KIL is the sole supplier to the 'Mont Blanc' brand. In FY09, KIL achieved sales and PAT of Rs.1,099.57 crore and Rs.36.41 crore respectively.

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