March 24, 2021

Thangamayil Jewellery Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	260.00	260.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Short-term (Interchangeable) ^	(260.00)	(260.00)	[ICRA]A2+; upgraded from [ICRA]A2
Long-term/Short-term – Proposed facilities	40.00	40.00	[ICRA]A- (Stable)/ [ICRA]A2+; upgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2
Medium-term – Fixed Deposit	77.00	77.00	MA+ (Stable); upgraded from MA- (Stable)
Total	**377.00**	**377.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings follows sharp improvement in the earnings of Thangamayil Jewellery Limited (TJL) in 9M FY2021 and consequent improvement in its debt protection metrics. While the company's revenues declined by 19.0% YoY in 9M FY2021 owing to pandemic-induced lockdown in its key markets and reduction in discretionary spending by customers amidst elevated gold prices, the operating margins expanded by 500 bps YoY in 9M FY2021, supported by higher gold price realisations resulting in inventory profits, increasing sales contribution from margin-accretive gold and diamond jewellery ornaments, cost-saving initiatives undertaken by the company, better stock rotation and higher share of old gold purchases during the period. On a YoY basis, the net cash profits expanded by ~122% to Rs. 79.5 crore in 9M FY2021. Consequently, the debt protection metrics witnessed improvement with Adjusted debt/ OPBITDA and adjusted total outside liabilities (TOL)/net worth at 2.4 times and 1.5 times respectively as on December 31, 2020 (2.8x and 1.9x as on December 31, 2019), and adjusted interest coverage of 7.2 times in 9M FY2021 (5.0x as on December 31, 2019). Despite the contraction in revenues in 9M FY2021, ICRA expects the company to recuperate the lost sales in H1 FY2021 and post flattish revenues in FY2021 vis-à-vis FY2020, owing to sharp ramp-up in sales in H2 FY2021, on the back of pent up demand post the lifting of lockdown, healthy demand from the rural segment owing to good rainfall in tier-II/ tier-III cities and focused marketing initiatives undertaken by the company, resulting in better penetration in rural markets. ICRA expects the debt coverage metrics to be comfortable going forward supported by enhanced gross margins and favourable stock rotation levels. The ratings remain supported by TJL's established presence in southern Tamil Nadu and the extensive experience of its promoters in the gold jewellery retail industry.

The ratings also consider the high geographical- and product-concentration risks with TJL deriving its entire revenue from the Tamil Nadu market and over 90% of revenues from gold jewellery in 9M FY2021. Moreover, the rating strengths are offset to an extent by the working capital-intensive nature of business, vulnerability of TJL's earnings to volatility in gold prices, moderate scale of operations and profit margins due to limited value addition, and fragmented industry structure resulting in pricing pressure for retailers. The ratings also factor in the inherent regulatory risks in the gems and jewellery industry (which impacted the retailers' performance in the past) and a cautious lending environment constraining the funding to the sector.

The Stable outlook on the medium-term and long-term ratings reflects ICRA's opinion that TJL will continue to benefit from its strong brand name in southern Tamil Nadu and the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Established brand name in southern Tamil Nadu: TJL has 47 stores (as of December 2020) and commands a strong brand name in tier-II and tier-III cities of southern Tamil Nadu with a dominant market position in its key market, Madurai. The promoters' extensive experience in the jewellery retail industry and the company's established presence in most of its key regions of operations supports TJL's operational profile. Most of the new stores opened under the initiative of TMJ Plus in the past two years, were also launched in Tier-2/3 markets.

Strong financial profile marked by increase in earnings and improvement in coverage indicators: TJL's financial profile is strong, marked by a healthy 26.7% and 48.2% increase in OPBDITA and cash profits, respectively, in the last three years (CAGR as of FY2020). Due to pan-India lockdown in Q1 FY2021 and stricter extended local lockdown imposed by the state government authorities in Q2 FY2021 amidst the pandemic, its stores were operational for 97 days in H1 FY2021. Consequently, the sales were impacted in 9M FY2021. Nevertheless, with pick up in gold jewellery volumes in Q3 FY2021 (1,123 Kgs vis-à-vis 981 Kgs in Q3 FY2020) and remunerative gold realisations, the company generated revenues of Rs. 1,079.8 crore in 9M FY2021, vis-à-vis Rs. 1,333.6 crore in 9M FY2020, a contraction of 19.0%. The volumes picked up in Q3 FY2021 on the back of pent up demand post the lifting of lockdown, healthy demand from the rural segment, owing to good rainfall in tier-II/ tier-III cities and focused marketing initiatives resulting in better penetration in rural markets. Notwithstanding the decline in revenues in 9M FY2021, the operating margins expanded by 500 bps to 11.0% (5.9% in 9M FY2020) primarily aided by inventory gains to the tune of ~Rs. 47.0 crore owing to rising gold prices, improving product mix, cost-saving initiatives undertaken by the company, better stock rotation and higher share of old gold purchases during the period. Owing to the sharp expansion in earnings, the debt protection metrics have witnessed improvement with adjusted Debt/OPBITDA and adjusted TOL/net worth of 2.4x and 1.5x respectively as on December 31, 2020 (2.8x and 1.9x as on December 31, 2019) and interest coverage was 7.2x in 9M FY2021 (5.0x as on December 31, 2019).

Favourable long-term demand for organised jewellery retailers: While the elevated gold prices and Covid-19 effect on discretionary spend shall impact the near-term gold jewellery demand, the long-term outlook remains favourable, supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and growing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency, need for social distancing and higher compliance costs are likely to result in a churn in the unorganised segment, thus benefiting the organised players. TJL is well positioned to tap the incremental demand, given its reputed brand name and wide presence.

Credit challenge

Working capital-intensive nature of business and stiff competition: The jewellery retailing business is inherently working capital intensive because of the optimal inventory required to be maintained across the stores, given the need to display varied designs of jewellery to customers. Gold jewellery retail business is also highly competitive, given the presence of many organised and unorganised players, leading to limited pricing flexibility among players. With the addition of 15 new stores in the last three years, rising share of diamond sales and higher gold prices in this fiscal, TJL's stocking levels have increased to 181 days as on December 31, 2020 vis-à-vis 93 days as on March 31, 2017.

Regional concentration risks: As of December 2020, TJL has 47 stores across tier-II and tier-III cities in southern Tamil Nadu, largely catering to rural demand. With the entire revenue derived from Tamil Nadu, the company is exposed to risks of high geographical concentration. Nevertheless, its established brand presence in the region it operates and strong customer base act as risk mitigants. With presence only in Tamil Nadu, where the preference is largely towards gold jewellery, over 90% of its revenues were derived from the sales of the same in 9M FY2021, exposing it to high product-concentration risk and limiting the scope for margin expansion. That said, the revenue contribution from silver and diamond jewellery gradually grew to 9.7% in 9M FY2021 from 5.5% in FY2015, owing to the increasing focus of the company on diversifying its revenue streams.

Additionally, with 13 small stores opened in the past two years (under the initiative of TMJ Plus) to be focused primarily on the sale of silver jewellery, the product-concentration risk is expected to reduce further going forward.

Exposure to regulatory risks: The jewellery retail industry has been witnessing increased regulatory intervention in recent years which consequently impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to gold metal loans, mandatory Permanent Account Number (PAN) disclosure requirement beyond threshold transaction limits, restrictions on jewellery saving schemes, imposition of excise duty, increase in import duty, demonetization, GST etc., has had its effect on both demand and supply. Increasing supervision and cautious lending environment further restrict the fund flows to the sector, thus hampering the store expansion plans of retailers. With India importing bulk of its gold and silver requirements, the recent decision of the finance ministry to rationalize the import duty on gold and silver to 7.5% from 12.5% earlier, is expected bring down the prices going forward.

Liquidity position: Adequate

The company's liquidity position is **adequate** with positive fund flow from operations of Rs. 78.6 crore in 9M FY2021 and average working capital utilisation of ~69% of the sanctioned limits for the 12-month period that ended in December 2020. The company has been maintaining ~20% of sanctioned limits unutilized and cash and bank balances of Rs. 5.4 crore as on December 31, 2020, to meet margin requirements arising from price fluctuations in Multi Commodity Exchange of India Limited (MCX) and towards margin requirements of gold metal loans. The company has undrawn working capital limits of Rs. 57.3 crore and unutilised fixed deposit (FD) lines of ~Rs. 21.0 crore as on December 31, 2020, which lends support to its liquidity profile. TJL has FD repayments of Rs. 1.2 crore during January'2021 to March'2021 and Rs. 34.7 crore in FY2022, which is expected to be serviced through internal accruals. ICRA expects the company's liquidity profile to remain adequate going forward.

Rating sensitivities

Positive factors – Sustained growth in scale of operations and earnings, improved business diversification and better inventory management. Specific credit metrics that could lead to an upgrade of ratings include a) interest coverage of more than 5.5 times and b) TOL/TNW less than 1.2x on a sustained basis.

Negative factors – Negative pressure on rating will emanate from sharp deterioration in earnings and/or stretch in working capital position impacting liquidity profile. Specific credit metrics that could lead to a downgrade of ratings include (a) TOL / TNW exceeding 1.5x and (b) interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Thangamayil Jewellery Limited (TJL) is a jewellery retailer based out of Madurai, Tamil Nadu. It was established as a proprietorship firm by Mr. Baluswamy Chettiar in 1947. Following the re-constitutions in 2000 and 2007, it was converted into a public limited entity and post an initial public offer (IPO) in January 2010, it is currently listed on the Bombay Stock Exchange and National Stock Exchange. The company is at present managed by Mr. Balarama Govinda Das, Mr. Ba. Ramesh, and Mr. N.B. Kumar, who are the sons of the promoter. TJL has 47 jewellery outlets across Tamil Nadu as on December 31, 2020.

Key financial indicators (audited)

Standalone	FY2019	FY2020	9M FY2020	9M FY2021
Operating Income (Rs. crore)	1,443.6	1,692.2	1,333.7	1,079.8
PAT (Rs. crore)	30.3	45.7	37.1	72.8
OPBDIT/OI (%)	4.9%	5.8%	5.9%	11.0%
PAT/OI (%)	2.1%	2.7%	2.8%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.2	2.1	1.5
Total Debt/OPBDIT (times)	3.4	2.9	2.5	1.9
Interest Coverage (times)	3.5	4.7	5.0	7.2

Source: Company, ICRA Research; Note: 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: No

Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Mar 24, 2021	Sept 24, 2020	Sept 4, 2020	Sept 9, 2019	Sep 21, 2018	Dec 21, 2017	Sep 08, 2017
1	Cash Credit	Long Term	260.00	120.80	[ICRA]A- (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	[ICRA]BBB- (positive)
2	LC / Gold Metal Loan (sub-limit)	Short Term	260.00	81.90	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3
3	Unallocated	Long term / short term	40.00	NA	[ICRA]A- (stable)/ [ICRA]A2+	[ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB (stable)/ [ICRA]A3+	[ICRA]BBB- (positive)/ [ICRA]A3
4	Fixed Deposits	Medium Term	77.00	55.56	MA+ (stable)	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)

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

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	Cash Credit	NA	8.40-11.75%	-	260.00	[ICRA]A- (stable)
NA	LC/Gold Metal Loan (sub-limit)	NA	1.95-3.50%	-	(260.00)	[ICRA]A2+
NA	Unallocated	NA	NA	-	40.00	[ICRA]A- (stable)/ [ICRA]A2+
NA	Fixed Deposits	NA	7.00-8.00%	-	77.00	MA+ (stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: NA

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About ICRA Limited:

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