January 21, 2022

# Thangamayil Jewellery Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based Working capital facilities | 260.00 | 241.00 | [ICRA]A-(Stable); reaffirmed |
| Short-term Fund-based limits | 0.00 | 99.00 | [ICRA]A2+; assigned |
| Short-term Interchangeable limits# | (260.00) | (306.00) | [ICRA]A2+; reaffirmed/assigned |
| Long/Short Term Unallocated limits | 40.00 | 0.00 | - |
| Medium Term Fixed Deposits | 77.00 | 95.00 | MA+(Stable); reaffirmed/assigned |
| Total | **377.00** | **435.00** | |

**Instrument details are provided in Annexure-1; # - sublimit of long-term and short-term fund based limits*

## Rationale

The rating reaffirmation reflects the steady performance of Thangamayil Jewellery Limited (TMJL) in the current fiscal and the consistent performance expected in the coming quarters on the back of its established market position and ongoing store expansion. TMJL's revenues and earnings have been steady since Q3 FY2021 (except for some moderation in Q1 FY2022 because of the second wave of the pandemic), driven by a recovery in demand conditions and favourable gold prices. The strong second-half performance aided a revenue growth of around 8% in FY2021 against the ~50% decline witnessed in H1 FY2021. Favourable gold prices and cost-control measures helped improve the operating margins by around 240 bps to 8.2% in FY2021. Healthy performance in the recent quarters backed by strong festive and wedding demand is expected to support TMJL to register a revenue growth of more than 20% in FY2022, despite the modest first-quarter performance and the likely impact of the third wave in Q4 FY2022.

Growth over the medium term would be supported by the proposed expansion of the store network as well as opportunities presented by a large share of unorganised players in the industry. While margins are likely to moderate to steady-state levels of around 6-6.5% from FY2022, the overall earnings are anticipated to remain comfortable driven by the growth in the scale of operations.

TMJL's capitalisation and credit metrics improved in FY2021 on the back of a strong growth in earnings from operations with the key ratios, including interest coverage and total outside liabilities to tangible net worth (TOL/TNW), improving to comfortable levels of 6.5 times and 1.6 times, respectively, for the fiscal. Despite the proposed expansion and consequent increase in working capital debt levels expected, ICRA estimates TMJL's interest coverage and TOL/TNW to remain at adequate levels of around 5.5-6 times and 1.5 times, respectively, over the medium term.

The ratings also factor in the geographical concentration and product concentration risks as TMJL derives its entire revenue from the Tamil Nadu market and over 90% of the revenues from gold jewellery. Further, TMJL is exposed to inherent regulatory risks in the jewellery industry which could impact the retailer's performance and the intense competition which limits pricing flexibility and exposes its earnings to gold price fluctuations.

The Stable outlook on the ratings reflects ICRA's opinion that TMJL's performance will continue to benefit from its established market position in southern Tamil Nadu, increasing focus on expansion into new markets and comfortable capitalisation levels.

## Key rating drivers and their description

### Credit strengths

**Established market presence in southern Tamil Nadu –** TMJL operates 50 stores (as of December 2021) and commands a strong presence in the tier-II and tier-III cities of Tamil Nadu, with a dominant market position in its key market, Madurai. The promoters' extensive experience in the jewellery retail industry and TMJL's established presence in most of its key regions supports its operational performance, as illustrated in the steady revenue growth over the years.

**Comfortable financial profile –** TMJL's financial profile is characterised by adequate credit metrics and liquidity position on the back of a healthy growth in profits generated in FY2021. The strong earnings had helped improve the coverage metrics and leverage indicators in FY2021 as estimated during the last rating exercise in March 2021, with the interest cover improving to around 6.5 times and TOL/TNW to 1.6 times in FY2021. Steady earnings from operations over the medium term are likely to ensure that TMJL's credit metrics would remain adequate, despite the increase in debt levels to fund store expansion.

**Favourable growth prospects in jewellery segment for organised players –** Increasing measures in the jewellery segment for greater transparency and higher compliance costs has resulted in a sizeable churn in the unorganised segment, benefiting organised players such as TMJL over the years. Further, regulatory changes such as the mandatory hallmarking of gold jewellery from June 2021 have supported organised trade and would continue to provide better opportunities for TMJL which has an extensive presence in tier 2/3 markets. While certain regulatory actions have aided a shift towards organised trade, TMJL remains exposed to the risks of any adverse regulatory actions that may impact its business profile as seen in the past. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions and imposition of excise duty are some of the adverse regulatory developments that have taken place over the last decade, affecting the domestic jewellery retail sector.

### Credit challenges

**Moderate business concentration risks –** TMJL's revenues remain dependent on the Tamil Nadu market, with all its showrooms in Tamil Nadu (with higher concentration in the Madurai market). While the performance has been supported by the improving penetration and store expansion within the TN market, this dependence exposes its revenues and earnings to the vagaries in the demand scenario and restrictions within the state. Further, the share of studded jewellery remains low in line with the demand profile within the state, which is likely to limit any appreciable margin expansion over the medium term.

**Performance exposed to volatile gold prices–** Limited pricing flexibility on the back of intense competition in the region exposes TMJL's earnings to volatile gold prices as seen in the past. While the increase in prices and resultant inventory gains have aided margin expansion in FY2021, the pressure on prices seen in 2021 has resulted in margins reverting to the earlier levels of around 6-6.5% in the current fiscal.

### Liquidity position: Adequate

TMJL's liquidity position is expected to remain adequate, supported by steady earnings from operations and adequate unutilised lines of credit. Cash buffer, including free cash reserves, liquid investments and unutilised working capital limits, together stood at around Rs. 85 crore as on September 30, 2021. The average utilisation of its fund-based limits over the last 12-month period ended December 2021 has been around 75%. While the company's funding requirement for incremental working capital requirements is estimated to be around Rs. 150 crore per annum for FY2022 and FY2023, it is expected to be funded through accruals of more than Rs. 180 crore estimated during the period along with enhancement of working capital facilities to part fund the incremental inventory requirements.

### Rating sensitivities

**Positive factors –** Sustained growth in scale of operations and earnings, improved business diversification and better inventory management may lead to an upgrade in the ratings. Specific credit metrics that could lead to an upgrade include a) interest coverage of more than 5.5 times and b) TOL/TNW of less than 1.35 times on a sustained basis.

**Negative factors –** Negative pressure on the ratings may emanate from any sharp deterioration in earnings or elongation in the working capital cycle, which would adversely impact TMJL's debt protection metrics and liquidity position. Specific metrics that may lead to a downgrade include the interest cover declining to below 4.0 times on a sustained basis.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in Gold Jewellery - Retail Industry |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the standalone financial profile of the entity |

## About the company

Thangamayil Jewellery Limited (TMJL) is a jewellery retailer based in Madurai, Tamil Nadu. It was established as a proprietorship firm by Mr. Baluswamy Chettiar in 1947. After an initial public offer (IPO) in January 2010, it is currently listed on the Bombay Stock Exchange and the National Stock Exchange. At present, the company is managed by Mr. Balarama Govinda Das, Mr. Ba. Ramesh, and Mr. N.B. Kumar, who are the sons of the promoter. TMJL has 50 jewellery outlets across Tamil Nadu as on December 31, 2021.

### Key financial indicators

| | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 1,692.2 | 1,820.3 |
| PAT (Rs. crore) | 45.7 | 86.6 |
| OPBDITA/OI (%) | 5.8% | 8.2% |
| PAT/OI (%) | 2.7% | 4.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.2 | 1.6 |
| Total Debt/OPBDITA (times) | 2.9 | 2.2 |
| Interest Coverage (times) | 4.6 | 6.5 |

*Source: Company; 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: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on March 31, 2021 (Rs. crore) | Date & Rating on | Date & Rating in FY2021 | | | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Jan 21, 2022 | Mar 24, 2021 | Sept 24, 2020 | Sept 4, 2020 | Sept 9, 2019 | Sep 21, 2018 |
| 1 | Working Capital Facilities | Long-term | 241.00 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 2 | Fund Based limits | Short-term | 99.00 | - | [ICRA]A2+ | - | - | - | - | - |
| 3 | Interchangeable limits* | Short-term | (306.00) | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 |
| 4 | Unallocated | Long/ Short-term | 0.00 | - | - | [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 |
| 5 | Fixed Deposits | Medium-term | 95.00 | 55.16 | MA+ (Stable) | MA+ (Stable) | MA- (Stable) | MA- (Stable) | MA- (Stable) | MA- (Stable) |

*Source: Company; Amount in Rs. crore; * - sublimit of long-term and short-term fund based limits*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based Working capital facilities | Simple |
| Short-term Fund-based limits | Very Simple |
| Short-term Interchangeable limits# | Very Simple |
| Long/Short Term Unallocated limits | Not Applicable |
| Medium Term Fixed Deposits | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 |
|---|---|---|---|---|---|---|
| - | Long-term Working Capital Facilities | NA | NA | NA | 241.0 | [ICRA]A-(Stable) |
| - | Short-term Fund Based Limits | NA | NA | NA | 99.0 | [ICRA]A2+ |
| - | Interchangeable Limits# | NA | NA | NA | (306.00) | [ICRA]A2+ |
| - | Fixed Deposits | NA | NA | NA | 95.00 | MA+(Stable) |

***Source:*** *Company; # - sublimit of long-term and short-term fund based limits*

*Please click here to view details of lender-wise facilities rated by ICRA*

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS


**Jayanta Roy**
+91 33 7150 1120
jayanta@icraindia.com

**Kaushik Das**
+91 33 7150 1100
kaushikd@icraindia.com

**Balaji M**
+91 44 4596 4317
balaji.m@icraindia.com

**Asfar Mohamed**
+91 44 4297 4313
asfar.mohamed@icraindia.com


## RELATIONSHIP CONTACT


**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches