August 25, 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 facility	241.0	231.0	[ICRA]A-(Stable); reaffirmed
Short-Term Fund based	99.00	135.00	[ICRA]A2+; assigned/reaffirmed
Short-Term Interchangeable	(306.00)	(261.00)	[ICRA]A2+; reaffirmed
Long-Term Interchangeable	0.00	(54.00)	[ICRA]A-(Stable); assigned
Fixed Deposit	95.00	95.00	[ICRA]A-(Stable); reaffirmed
Long term/ Short term - Unallocated Limits	0.00	45.00	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Total	**435.00**	**506.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation reflects the expected improvement in the performance of Thangamayil Jewellers Limited (TMJL) in the current fiscal, driven by its established market position and improving business diversification. Post the healthy earnings growth in FY2021, TMJL's operating profitability was under pressure in FY2022 due to an increase in the other operating costs, especially in the second half, incurred towards opening of large showrooms (the operating margin declined to around 4% in FY2022 from ~8% in FY2021 and ~6% in FY2020). The overall performance in H2 FY2022 was constrained by heavy rainfall in the key markets in the third quarter and the impact of the third wave of the pandemic and high gold prices in the fourth quarter. However, TMJL's performance is expected to improve in FY2023, supported by a strong first quarter performance, improving revenue contribution from new showrooms and its strong brand equity in the Tamil Nadu market. ICRA estimates that TMJL is likely to record a healthy revenue growth of more than 25% in the current fiscal, and an operating margin of ~5% in the coming quarters.

TMJL's debt protection metrics had weakened to an extent in FY2022, given the low operating profits and an increase in debt levels towards meeting funding requirements for the proposed showrooms. Key ratios including interest coverage and Total Outside Liabilities to Tangible Net worth (TOL/TNW) stood at around 3.3 times and 1.8 times, respectively in FY2022. Nevertheless, with the expected improvement in revenues and operating profits, its interest cover is estimated to improve to more than 4 times in FY2023 despite the likely increase in debt levels. TMJL's credit profile also remains supported by its adequate liquidity position and Total Outside Liabilities to inventory of less than 80%, which lends financial flexibility.

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 its revenues from gold jewellery. Further, TMJL is exposed to inherent regulatory risks in the jewellery industry, which could impact the retailers' performance. Besides, intense competition limits pricing flexibility and exposes its earnings to fluctuations in gold prices.

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

Key rating drivers and their description

Credit strengths

Established market presence in southern Tamil Nadu – TMJL operates 52 stores (as of July 2022) 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 strong market position in most of its key regions support its operational performance, as illustrated by the steady revenue growth over the years. Further, various measures in the jewellery segment for greater transparency and higher compliance costs resulted in a sizeable churn in the unorganised segment, benefiting organised players such as TMJL over the years. Mandatory hallmarking of gold jewellery from June 2021 has supported organised trade and would continue to provide better opportunities for TMJL, which has an extensive presence in tier 2/3 markets.

Comfortable financial profile – TMJL's financial profile is characterised by adequate debt protection metrics and liquidity position on the back of steady earnings over the years except in FY2022. While its key metrics had been impacted in FY2022, the same improved in the current fiscal with an interest cover of 4.6 times in the first quarter of FY2023 on the back of higher revenues and profits. Steady earnings from operations over the medium term are likely to ensure that TMJL's credit metrics would remain adequate, despite an increase in debt levels to fund store expansion.

Credit challenges

Moderate business concentration risks – TMJL's revenues remain dependent on the Tamil Nadu market, with all its showrooms located 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 Tamil Nadu market, this dependence exposes its revenues and earnings to the fluctuations in the demand scenario and restrictions within the state, as witnessed in the recent past. 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 and regulatory risks in jewellery segment – 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 the resultant inventory gains had aided margin expansion in FY2021, the pressure on prices seen in the subsequent quarters along with an increase in other operating costs had resulted in lower margins in FY2022. Further, certain adverse regulatory developments have impacted the domestic gold jewellery industry 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 years. TMJL will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Liquidity position: Adequate

TMJL's liquidity position is expected to remain adequate, supported by improvement in earnings from operations and adequate unutilised lines of credit. Cash buffer, including free cash reserves and unutilised working capital limits, together stood at around Rs. 125 crore as on July 31, 2022. The average utilisation of its fund-based limits over the last 12-month period ended in July 2022 stood at around 75%. Despite the relatively high incremental working capital requirements towards new showrooms required in FY2023, its liquidity position is expected to be supported by accruals of more than Rs. 75 crore and adequate unutilised lines of credit (with working capital lines expected to be enhanced further) among others.

Rating Sensitivities

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

Negative factors – Pressure on the ratings may emanate from a sharp deterioration in the company's earnings or an elongation in the working capital cycle, which could adversely impact the debt protection metrics and liquidity position of the entity. Specific metrics that may lead to ratings downgrade include interest cover declining to less than 4.0 times on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery - Retail Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated 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 Baluswamy Chettiar in 1947. After an initial public offer in January 2010, it is currently listed on the Bombay Stock Exchange and the National Stock Exchange. The company is managed by Mr. Balarama Govinda Das, Mr. Ba. Ramesh, and Mr. N.B. Kumar, the sons of the promoter. TMJL has 52 jewellery outlets across Tamil Nadu as on July 31, 2022.

Key financial indicators (audited)

Thangamayil Jewellery Limited	FY2021	FY2022
Operating income (Rs. crore)	1818.62	2193.07
PAT (Rs. crore)	86.58	38.54
OPBDIT/OI	8.08%	3.93%
PAT/OI	4.76%	1.76%
Total outside liabilities/Tangible net worth (times)	1.60	1.79
Total debt/OPBDIT (times)	2.20	4.84
Interest coverage (times)	6.42	3.29

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 (FY2023)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on July 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					Aug 25, 2022	June 03, 2022	Jan 21, 2022	Mar 24, 2021	Sept 24, 2020	Sept 4, 2020	Sept 09, 2019
1	Working Capital Facilities	Long-term	231.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund Based limits	Short term	135.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-	-	-
3	Interchangeable limits	Short term	(261.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Interchangeable limits	Long-term	(54.00)	-	[ICRA]A- (Stable)	-	-	-	-	-	-
5	Fixed Deposits	Long-term	95.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	MA+ (Stable)	MA+ (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)
6	Unallocated Limits	Long/ short term	45.00	-	[ICRA]A- (Stable) /[ICRA]A2+	-	-	[ICRA]A- (Stable) /[ICRA] A2+	[ICRA]BBB+ (Stable) /[ICRA] A2	[ICRA]BBB+ (Stable) /[ICRA] A2	[ICRA]BBB+ (Stable) /[ICRA] A2

Amount in crore; Source: TMJL

Complexity level of the rated instruments

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 term Interchangeable limits	Very Simple
Fixed Deposits	Very Simple
Long/ Short term Unallocated Limits	Not Applicable

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 analysing 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 are available on ICRA’s website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term - Fund Based Working Capital facility	NA	NA	NA	231.0	[ICRA]A- (Stable)
-	Short-Term Fund based	NA	NA	NA	135.0	[ICRA]A2+
-	Short-Term Interchangeable	NA	NA	NA	(261.0)	[ICRA]A2+
-	Long-Term Interchangeable	NA	NA	NA	(54.0)	[ICRA]A- (Stable)
-	Fixed Deposit	NA	NA	NA	95.0	[ICRA]A- (Stable)
-	Long term/ Short term - Unallocated Limits	NA	NA	NA	45.0	[ICRA]A- (Stable)/[ICRA]A2+

Source: *Company*

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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