October 28, 2022

Kalyan Jewellers India Limited: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term fund-based – working capital facilities	2,559.00	2,493.00	[ICRA]A+(Stable)/[ICRA]A1; upgraded from [ICRA]A(Stable)/[ICRA]A2+
Short-term fund-based/non-fund based (sub-limits)	(1,033.00)	(1,663.00)	[ICRA]A1; upgraded from [ICRA]A2+
Long-term fund-based – Term Loans	166.00	-	-
Long-term – Unallocated limits	305.00	537.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long-term – Fixed Deposits Programme	525.00	525.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Total	**3,555.00**	**3,555.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Kalyan Jewellers India Limited (KJIL), which includes its subsidiaries and step-down subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The ratings upgrade reflects the healthy operating performance of KJIL in FY2022 and Q1 FY2023 and ICRA's expectations of continued improvement in the company's performance over the medium term, driven by its expanding distribution network and industry tailwinds in the form of shifting market share in favour of branded/organised retailers, accelerated by favourable Government policies, including mandatory hallmarking of gold jewellery. KJIL recorded a healthy revenue growth of ~50% YoY to ~Rs. 6,800 crore in H1 FY2023 (provisional), albeit on a low base, impacted by the pandemic-induced lockdowns last year, with operating margins sustaining at ~8% in Q1 FY2023. The Middle East business, which remained under pressure over the last two years, recorded a healthy revenue growth of ~68% YoY in H1 FY2023, signalling a revival in operations. Although KJIL's revenue growth in H2 FY2023 is likely to be moderated by the extraordinarily high base of last year, ICRA expects KJIL's revenue to continue to grow by more than 10% p.a. over the medium term with economies of scale and improving product mix supporting its margins.

The ratings continue to favourably factor in the company's large scale of operations and strong market position, aided by its established brand name along with a track record of over three decades in the jewellery retail industry. KJIL's healthy geographic diversity of revenue and share of studded jewellery in the product mix puts it among the top players in the industry. The increasing adoption of the franchisee model (KJIL has opened five franchisee stores in YTD FY2023) in its retail expansion is likely to reduce the capital requirements, going forward. ICRA also derives comfort from the high corporate governance standards of the company underpinned by more than 50% independent and reputed independent board members.

The ratings, however, continue to remain constrained by the moderate coverage metrics and return indicators, limited by the high working capital requirements in the business and modest inventory turnover. While KJIL's interest cover, adjusted TOL[1]/TNW and adjusted TOL/Inventory improved to 2.4 times, 1.4 times and 75%, respectively, in FY2022, the metrics remain below the rating levels. ICRA expects KJIL's credit metrics to improve over the medium term with limited incremental capital

[1] Total outside liabilities adjusted for cash and lease liabilities

requirements due to adoption of the franchisee model, along with economies of scale. The ratings also consider the intense competition, which limits pricing flexibility, coupled with exposure to volatile gold prices and regulatory risks, which have impacted the retailer's performance in the past.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company's operating and financial performances will continue to benefit from its strong market position and favourable demand conditions along with improving business diversification and capital structure.

Key rating drivers and their description

Credit strengths

Established market position with healthy scale of operations – KJIL is one of India's largest jewellery retailers with a strong brand name of Kalyan, enjoyed across the market. Its healthy scale of operations, characterised by more than Rs. 10,000 crore in revenue from operations (in FY2022) and a pan-India retail network comprising 131 showrooms across 21 states in India, 31 showrooms across the Middle East and 1 showroom for Candere as on September 30, 2022, benefits the company in terms of economies of scale and enables it to survive periods of business downturns.

Improving geographic and product diversification – KJIL has a diversified business presence with 45% of its revenue derived from non-South India and the Middle East markets in FY2022. The company has been diversifying geographically to non-South India markets over the last five years, resulting in its share of revenue increasing to 30% in FY2022 from 23% in FY2017. KJIL's product diversity has also improved with the share of margin-accretive studded and diamond jewellery increasing to ~24% (India) in FY2022 from ~20% (India) in FY2017. This is expected to increase further over the medium term with KJIL's deeper penetration into non-South markets, which display higher demand for studded jewellery.

Experience and track record of promoters and management – KJIL's promoters have a vast experience in the gold jewellery industry for three decades. Further, the presence of Highdell Investments Limited (Warburg Pincus Group) and reputed independent directors on the board, complimented by a professional management team, provides additional comfort on systems and governance.

Favourable industry growth prospects – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency and higher compliance costs have been resulting in the shifting of market share in favour of the organised jewellery retailers. This is likely to be an advantage for KJIL due to its pan-India presence and brand equity. ICRA expects KJIL to continue to increase its revenue base while riding the industry tailwinds over the medium term, supported by a loyal customer base and an extensive 'My Kalyan' network of stores.

Credit challenges

Moderate coverage metrics – KJIL's coverage metrics remain at moderate levels with an interest cover of below 3.0 times. While the geographic diversification contributed to improvement in the company's revenue from margin-accretive studded jewellery, the rapid expansion of its retail network resulted in the need for increased inventory-stocking, thus impacting its inventory turnover, which remains low compared to industry figures. Nevertheless, KJIL's credit metrics have improved year-on-year and are likely to improve with the expected improvement in inventory turnover and earnings in the coming quarters with limited incremental capital requirements for expansion with the adoption of the franchisee model.

Intense competition and exposure to regulatory risks – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape which could have an adverse impact on the business. Restriction on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold and imposition of excise duty are some of the regulations that have impacted business prospects in the past. KJIL remains exposed to changes in regulations that may impact its business profile. Further, the jewellery retail business is highly fragmented and is exposed to intense competition from organised and unorganised players. This limits the pricing flexibility enjoyed by retailers to an extent.

Environmental and social risks

Exposure to environmental risks remains low for entities in the jewellery retail industry. Few issues of concern include episodes of excessive rainfall/flooding in the operating regions impacting its jewellery stores, as recorded in the past. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise also pose risks to revenue growth and profitability.

Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing that has supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including, among other things, a shift towards less gold-intensive daily/fashion jewellery. Additionally, with a relatively high requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on margins, especially given the skilled nature of work.

Liquidity position: Adequate

KJIL's liquidity position remains adequate, supported by steady earnings from operations coupled with unutilised lines of credit and adequate free cash balances. Cash buffer, including free cash reserves, liquid investments and unutilised working capital limits stood at ~Rs. 440 crore as on March 31, 2022. The average utilisation of its fund-based limits over the last 12 months ending stood at 94%. KJIL is expected to generate accruals of more than Rs. 500 crore in FY2023 against its funding requirements towards capital expenditure of ~Rs. 100 crore along with scheduled debt repayment obligations of ~Rs. 36 crore. The incremental working capital requirements to support the expansion are expected to be funded through internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a sustained healthy growth in revenue and earnings along with higher inventory turnover, resulting in an improvement in its credit metrics and return indicators. Specific credit metrics that could result in a ratings upgrade include Net TOL (adjusted for cash)/Inventory below 70% and interest cover above 5.0 times on a sustained basis.

Negative factors – Pressure on the ratings may arise if there is sustained pressure on the operating performance or deterioration in working capital cycle, adversely impacting the coverage metrics and liquidity position. Specific credit metrics that could result in a ratings downgrade include Net TOL (adjusted for cash)/TNW exceeding 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellery (Retail) Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KJIL, as specified in Annexure - II

About the company

Kalyan Jewellers India Limited (KJIL), promoted by Mr. T.S. Kalyanaraman and his sons, is an established jewellery retailer in India with a presence spanning more than three decades. The company operates through a pan-India retail network of 131 stores in India as on September 30, 2022 of which 77 were in South India and the remaining 54 in non-South India. The company entered the Middle East market in December 2013 with six showrooms. It operated 31 showrooms in the Middle East, after closing seven stores in FY2021, and 1 showroom for Candere as on September 30, 2022. The global private equity fund Warburg

Pincus (Highdell Investments Limited) holds ~26% stake in the company. The company was listed on the Bombay Stock Exchange and the National Stock Exchange of India in March 2021.

Key financial indicators (audited)

KJIL Consolidated	FY2021	FY2022
Operating income	8,551	10,788
PAT	-6	224
OPBDIT/OI	8.9%	7.9%
PAT/OI	-0.1%	2.1%
Total outside liabilities/Tangible net worth (times)	2.1	1.8
Total debt/OPBDIT (times)	5.4	4.7
Interest coverage (times)	1.9	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 28, 2022	Jun 03, 2022	Oct 28, 2021	Oct 26, 2020	Sep 09, 2019
1	Fund based – Working capital facilities	Long term/ short term	2,493.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
2	Fund based/ non-fund based (sub-limits)	Short term	(1,663.00)	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Term Loans	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Unallocated Limits	Long term	537.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
5	Fixed Deposits Programme	Long term	525.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	MA(Stable)	MA- (Stable)	MA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund based – Working capital facilities	Simple
Short-term fund based/non-fund based (sub-limits)	Simple
Long-term – Unallocated Limits	N.A.
Fixed Deposits Programme	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 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
NA	**Fund based – Working capital limits**	NA	NA	NA	2,493.00	[ICRA]A+(Stable)/[ICRA]A1
NA	**Fund based/non-fund based (sub-limits)**	NA	NA	NA	(1,663.00)	[ICRA]A1
NA	**Unallocated limits**	NA	NA	NA	537.00	[ICRA]A+(Stable)
NA	**Fixed deposits programme**	NA	NA	NA	525.00	[ICRA]A+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KJIL Ownership	Consolidation Approach
Subsidiaries		
Kalyan Jewellers FZE, UAE	100.00%	Full Consolidation
Kalyan Jewellers, INC., USA	100.00%	Full Consolidation
Enovate Lifestyles Private Limited	85.00%	Full Consolidation
Step Down Subsidiaries		
Kalyan Jewellers LLC, UAE	100.00%	Full Consolidation
Kalyan Jewellers For Golden Jewelry Company, W.L.L., Kuwait	49.00%	Full Consolidation
Kalyan Jewellers LLC, Qatar	49.00%	Full Consolidation
Kalyan Jewellers LLC, Oman	70.00%	Full Consolidation
Kenouz Al Sharq Gold Ind. LLC, UAE	49.00%	Full Consolidation
Kalyan Jewellers Bahrain W.L.L.	49.00%	Full Consolidation

Source: KJIL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (KJIL), its subsidiaries and step down subsidiaries while assigning the ratings.

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About ICRA Limited:

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