December 19, 2023

Anand Jewels (Indore) Private 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/short term-fund based	275.0	350.0	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed/assigned
Long-term– Fund based Term Loans	15.1	15.1	[ICRA]BBB+(Stable) to be reaffirmed
Total	**290.1**	**365.1**	

Instrument details are provided in Annexure-I

Rationale

The rating action considers the expected healthy financial performance of Anand Jewels (Indore) Private Limited (AJIPL) in FY2024, driven by an expected increase in the scale of operation, improvement in geographical mix with the commencement of a new store in Raipur and better inventory management. In FY2023, the company recorded an overall revenue of Rs. 1,158 crore. The Raipur store, in its first year of operations in FY2023, booked revenues of Rs. 220 crore, which is expected to increase substantially in the current year, thus, increasing its scale. In addition, AJIPL is expected to open a new store in January 2024 under the brand name of "EISH by Anand", which is focussed on selling light-weight jewellery for western and daily wear, thus supporting the scale. In 8M FY2024, the company achieved healthy revenues of ~Rs. 986 crore on the back of high realisation and healthy volumes. While the demand was slightly impacted due to very high prices, AJIPL was able to achieve healthy volumes on the back of various sales promotion activities, wherein the basic items such as machine-made bangles, chains etc. were sold to customers at discounted prices. While the same supported the volumes, the operating margins are expected to be impacted in the current year. In FY2024, the company is likely to generate revenues of Rs. 1,400-1,500 crore. The operating margin is likely to be slightly moderate in the current year due to higher discounts. Going forward, it will be supported by an increase in the share of high-margin studded jewellery and better gold and jewellery procurement practices. The interest coverage is also likely to remain comfortable at 4.5-5 times in FY2024 and TOL/TNW of less than 2 times in FY2024 compared to ~2.6 times in FY2023. The liquidity position remains adequate. ICRA's ratings continue to favourably factor in AJIPL's established position as a regional player in Indore and Bhopal, in Madhya Pradesh (MP), and its established brand presence in the vicinity. The experience of the promoters for more than two decades in the retail jewellery industry is also a credit positive. Further, the ratings factor in the company's hedging policy, which provides a cushion against the price variation risk.

The ratings, however, remain constrained by the limited track record of the company, and geographical concentration of revenues in MP. Meanwhile, the recent entry in the Chhattisgarh market has reduced the geographical concentration risk to an extent. The ratings also factor in the intense competition and a fragmented industry structure, which are likely to keep the margins under check. ICRA also notes the inherent regulatory risks in the industry, which impacted the retailers' performance in the past. The ratings are further constrained by the working capital-intensive nature of operations.

The Stable outlook reflects ICRA's expectation that AJIPL's scale will increase on the back of new store addition and profits will be supported by various operational efficiency initiatives undertaken in the recent past.

Key rating drivers and their description

Credit strengths

Healthy financial performance expected to sustain in FY2024 – The company's revenues witnessed a CAGR of ~31% in the last five years. AJIPL reported an operating income of Rs. 1,158 crore in FY2023 (YoY growth of ~60%), which is further expected to increase by ~20-30% in FY2024. The increase in scale of operation will be aided by additional revenues from the Raipur store coupled with higher growth in volumes as well as realisations from its existing stores. However, operating margins are expected to slightly moderate due to higher discounts offered to garner higher volumes in FY2024. Nonetheless, from FY2025 onwards, the margins are expected to be supported by an increase in the share of high-margin studded jewellery and better gold and jewellery procurement practices.

The interest coverage is also likely to remain comfortable at 4.5-5 times in FY2024 and TOL/TNW of less than 2 times in FY2024 compared to higher levels of ~2.6 times in FY2023.

Improving operational efficiencies – In the recent months, AJIPL has undertaken various initiatives to improve operational efficiencies including better inventory management and gold procurement practices, which are likely to support operating margins, going forward. In the current year, AJIPL has started buying directly from the manufacturers, resulting in substantial cost savings. This will also lead to lower working capital requirements, and in turn support the liquidity position. In addition, the company's Raipur and Bhopal stores have a high share of studded jewellery, which resulted in an overall increase in the share of studded jewellery to 15-16% since FY2023, compared to ~10% earlier.

Extensive experience of promoters – The promoters have vast experience in the jewellery retail business in Indore. AJIPL's Chairman, Mr. Harbhajan Anand, has more than five decades of experience in the retail jewellery business, while Mr. Gaurav Anand, Director, has more than two decades of experience.

Credit challenges

Geographical concentration risk – The company is exposed to high geographical concentration risk as its ~100% revenues till FY2022 were generated from two stores in MP. With the opening of the new store in Raipur, the revenues have diversified to an extent, however, MP continued to contribute over 80-85% to the total sales in FY2023 and H1 FY2024. Going forward, with the ramp-up of stores in Bhopal and Raipur, the concentration on its flagship store is expected to reduce. While it has a strong brand presence in MP, its ability to establish presence in other states remains to be seen.

High working capital intensity – The working capital requirements of the business are high because of the need to maintain high inventory at its stores, which results in increased debt levels. While in the recent months, the company has rationalised its inventory to an extent, its TOL/TNW remained elevated at ~2.6 times in FY2023. With better inventory management, the same is likely to come below 2 times in FY2024 and will be a key monitorable.

Exposure to gold price volatility and government regulation – As common in retail jewellery business, raw materials constitute over 90% of the operating cost. Gold jewellery sales account for the major portion of AJIPL's revenues, so its profitability remains susceptible to gold price movements. However, hedging practices adopted by the management reduced this risk to an extent. Increased regulatory intervention in the jewellery industry like 80/20 restriction on imports, mandatory PAN disclosure requirement for purchases above the threshold limit, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty etc. in the recent years impacted the demand and supply in the industry.

Liquidity position: Adequate

The liquidity position is adequate with steady cash flow from operations, no major capex plans and cushion in the working capital limits. The average working capital limit stood at ~85% in FY2023. The recent enhancement of limits by Rs. 75 crore also provides comfort. ICRA notes that AJIPL will be able to comfortably meets its debt servicing obligations with the available liquidity.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant increase in revenues and profitability while maintaining a healthy liquidity position on a sustained basis. Specific triggers include TOL/TNW of less than 1.5 times on a sustained basis.

Negative factors – The ratings could be downgraded in case of any adverse impact on the revenue/ profitability, leading to a deterioration in debt protection metrics. Further, any sizeable dividend payout or higher working capital requirement, impacting the liquidity position of the company, can trigger a downward rating action. Specific credit metric for ratings downgrade includes an interest cover of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Gold Jewellery Retail Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AJIPL was established in 2008 by Mr. Gaurav Anand. It manufactures and sells gold ornaments, jewellery, precious stones and diamonds under the name of Anand Jewels. The company's Chairman, Mr. Harbhajan Anand, has over 50 years of experience and Director, Mr. Gaurav Anand, has over 20 years of experience in the retail jewellery sector. The Anand family/Anand Corporation is a well-known business group in Madhya Pradesh, with major businesses in retail (automobile and jewellery), hospitality and real estate. At present, AJIPL has three showrooms in Indore and Bhopal in Madhya Pradesh, and Raipur in Chhattisgarh.

Key financial indicators (audited)

AJIPL	FY2023	H1 FY2024
Operating income	1,158.0	603.2
PAT	35.8	13.7
OPBDIT/OI	5.6%	4.4%
PAT/OI	3.1%	2.3%
Total outside liabilities/Tangible net worth (times)	2.6	3.1
Total debt/OPBDIT (times)	4.0	5.4
Interest coverage (times)	4.2	3.7

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 (FY2024)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Dec 19, 2023	Aug 18, 2023	Nov 30, 2022	May 26, 2022	Aug 12, 2021	Oct 12, 2020	May 19, 2020
1	**Long term fund based**	Long term	0.0	--				[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2	**Long term/short term-fund based**	Long term/ short term	350.00	270.2	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-
3	**Fund based Term loans**	Long term	15.10	9.2	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-	-
4	**Non fund based-Bank guarantee**	Long term/ Short term	0.0	--				-	-	-	[ICRA]BBB- (Negative)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/short term-fund based	Simple
Long-term- Fund based-Term loans	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term/short term-fund based**	-	-	-	350.0	[ICRA]BBB+(Stable)/[ICRA]A2
NA	**Fund based Term Loans**	Jan 2021	NA	Dec 2025	15.1	[ICRA]BBB+(Stable)

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:

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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