Thangamayil Jewellery Limited

Instruments	Amounts (Rs. Crore[1])	Rating Action (August 2016)
Long-term - Fund based facilities	122.00 (enhanced from 121.00)	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Short-term - Non-fund based facilities (sub-limit)	(60.50) (revised from 70.00)	[ICRA]A3; upgraded from [ICRA]A4+
Long-term/Short-term - Proposed facilities	48.00 (enhanced from 24.00)	[ICRA]BBB- (Stable) / [ICRA]A3; upgraded from [ICRA]BB+ (Stable) / [ICRA]A4+
Fixed Deposit Programme	45.00	MA- (Stable); upgraded from MB+
Fixed Deposit Programme	3.00	MA- (Stable); assigned

ICRA has upgraded the long-term rating outstanding on the Rs. 122.00 crore (enhanced from Rs. 121.00 crore) fund based facilities of Thangamayil Jewellery Limited (TJL / the company) to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus)[2]. The outlook on the long-term rating is stable. ICRA has also upgraded the short-term rating outstanding on the Rs. 60.50 crore (revised from Rs. 70.00 crore) non-fund based (sub-limit) facilities of the company to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A4+ (pronounced ICRA A four plus). For TJL's Rs. 48.00 crore (enhanced from Rs. 24.00 crore) proposed facilities, ratings of [ICRA]BBB- (with stable outlook) or [ICRA]A3 would apply contingent upon the tenor of the availed facilities.

ICRA has also upgraded the rating outstanding on the company's Rs. 45.0 crore fixed deposit programme to MA- (pronounced M A minus) from MB+ (pronounced M B plus). ICRA has also assigned rating of MA- to the additional Rs. 3.00 crore fixed deposit programme of TJL. The outlook on the Fixed Deposit rating is stable.

The rating upgrade factors in the improvement in liquidity position of the company (aided by the renewed availability of gold metal loans) and the turnaround in financial performance in FY2016 characterized by growth in profitability and improvement in capital structure (with TOL/TNW of 1.9 times as on March 2016). While the reduction in advertisement spends and shift in funding profile towards metal loans (which carries low interest) had supported the improvement in profitability, rationalization of inventory levels had led to overall reduction in debt levels due to better operating cash flows. At present, the company's utilization of bank lines is well within the sanctioned limits and drawing power (as per bank statements submitted by the company), which provides comfort on liquidity. The ratings also factor in TJL's established brand presence in South Tamil Nadu and the long standing experience of promoters in the jewellery retail business.

ICRA notes that while the increase in realization (owing to rising gold prices) in Q4 FY2016 had aided in margin expansion to an extent, the absence of sales in March 2016 due to a month long industry wide strike (against the imposition of 1% excise duty) had limited overall growth in revenues and earnings during FY2016. Further, while the steady rise in gold prices during Q1 FY2017 led to better realizations, volumes were impacted on account of state elections in Tamil Nadu and due to price effect led demand decline, leading to muted revenue growth. With the gold prices expected to remain at higher levels over the near term with consequent impact on demand, the company plans to maintain the revenue growth through new store additions, materiality and timeliness of the same remains to be seen.

The ratings also factor TJL's limited pricing flexibility in the intensely competitive gold jewellery retail business, aggravated in the recent fiscals by the increasing presence of larger retailers in TJL's target markets (Tier-II and Tier-III cities). While the proposed store additions planned in the near to medium term would necessitate additional working capital requirements, the ability of the company to achieve breakeven in the targeted timeframe would be critical for improving the cash flows. The ratings also take note of the increased regulatory risks in the industry in the recent years, which exposes the operations to risk of disruption in gold bullion supplies / refinancing risks. With the long term demand fundamentals remaining intact for the industry, ability of

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, refer ICRA's website (www.icra.in) or other ICRA rating publications

the company to manage fluctuations in gold prices would be critical to ensure sustainability of operating profits given that nearly half of the inventory remaining un-hedged.

The company has Rs. 7.5 crore of term loan repayments and Rs. 10.6 crore of fixed deposit repayments for current fiscal, the same is expected to be funded through the accruals. As witnessed during the recent fiscals, the company is also expected to refinance the fixed deposits (due to demand from loyal subscriber base) which provides further comfort on the liquidity front.

Company Profile

Thangamayil Jewellery Limited is a jewellery retailer based out of Madurai, Tamil Nadu. The business commenced as a proprietorship firm floated by Mr. Baluswamy Chettiar in 1947. Following successive re-constitutions in 2000 and 2007, the company was converted into a public limited entity and post an Initial Public Offer (IPO) in January 2010, is currently listed in the Bombay Stock Exchange and National Stock Exchange. The Company is presently managed by Mr. Balarama Govinda Das, Mr. Ba. Ramesh, and Mr. N.B. Kumar who are the sons of the promoter. TJL has 31 jewellery outlets spread across Tamil Nadu.

Recent Results

For the quarter ended June 30, 2016, TJL reported net profit of Rs. 4.5 crore on an operating income of Rs. 286.9 crore as against net profit of Rs. 3.6 crore on an operating income of Rs. 300.2 crore for the corresponding quarter during the previous year.

For the financial year FY2016, the Company has reported a net profit of Rs. 10.5 crore on an operating income of Rs. 1,274.0 crore as against net loss of Rs. 22.3 crore on an operating income of Rs. 1,422.1 crore during FY2015.

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