Kalyan Jewellers India Limited

Instruments	Amounts (Rs. Crore[1])	Rating Action September 2016
Long-term – Term loan facilities	366.00 (enhanced from 100.00)	[ICRA]A- (Stable) / revised from [ICRA]A (Stable)
Long-term – Fund based facilities	2,559.00	
Long-term – Proposed facilities	Nil (revised from 66.00)	-
Short-term – Fund based facilities	75.00	[ICRA]A2+ / revised from [ICRA]A1
Short-term – Fund based facilities (sub-limit)	(250.00)	
Short-term – Non-fund based facilities (sub-limit)	(1,015.00)	
Fixed Deposit Programme	400.00	MA- (Stable)/assigned

ICRA has revised the long-term rating outstanding on the Rs. 366.00 crore (enhanced from Rs. 100.00 crore) term loans facilities and the Rs. 2,559.00 crore fund based facilities of Kalyan Jewellers India Limited (KJIL / the company)[2] to **[ICRA]A-** (pronounced ICRA A minus) from [ICRA]A (pronounced ICRA A). ICRA has also revised the short-term rating outstanding on the Rs. 75.00 crore fund based facilities, the Rs. 250.00 crore fund based (sub-limit) facilities and the Rs. 1,015.00 crore (enhanced from Rs. 100.00 crore) non-fund based (sub-limit) facilities of KJIL to **[ICRA]A2+** (pronounced ICRA A two plus) from [ICRA]A1 (pronounced ICRA A one). ICRA has assigned a rating of MA- (pronounced M A minus) for the Rs. 400.0 crore fixed deposit programme of the company. The outlook on the long-term rating and the fixed deposit programme rating is **Stable**.

The revision in ratings takes into account weaker than expected operational and financial performance of the company for the second fiscal year in succession and the weak demand outlook in the current fiscal (FY2017) following price increase. The overall growth in revenues and earnings during FY2016 was impacted by the lack of sales in March 2016 due to a month long industry-wide strike (against the imposition of 1% excise duty); and lower than expected subscription & sales from the new jewellery saving scheme (floated in compliance with the recent regulatory requirements). Further, the steady increase in gold prices in the current fiscal had negatively impacted same-store volume growth. In the absence of any near term trigger for gold price decline, demand is expected to remain muted for the rest of the fiscal despite the expected pick up in volumes in the second half of FY2017 aided by marriage and festive seasons.

Higher than expected selling expenses incurred during FY2016 for the launch of three showrooms in Chennai had adversely impacted operating margins in FY2016. While the operating margins in FY2015 were impacted by the inventory losses of Rs.90.0 crore, hedging of the entire inventory insulated it against price risk during FY2016; gain on forward contracts of Rs. 78.8 crore (PY Rs. 55.6 crore) further buffered profits. During FY2016, increase in share of metal loans resulted in decline in average finance cost and supported the net margins. Going forward, incremental volumes from the new stores, higher realization (given the steady rise in gold prices), stabilization of recently expanded stores and the sharp cut in advertisement expenses is expected to support the overall revenue and margin growth.

The ratings, however, factor in the established presence and leading market position of KJIL in the domestic jewellery retail market, its wide market reach with a growing pan India presence and its focused product diversification initiatives which have lend stability to operations. The ratings also factor in the improved hedging practices employed by the company and strengthening of internal control systems undertaken during the recent past, which lends operational efficiency and supports the expansion initiatives of the Company.

While the capital structure and coverage indicators had deteriorated during the past two fiscals owing to the drop in earnings and increase in debt to fund the expansion, overall liquidity position of the Company has been supported to an extent by the enhancement in bank borrowings and effective inventory management. The geographical diversification undertaken across non-south and Middle East markets also augurs well for the

[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

business profile of the company, lending diversity to revenues; the overseas operations turning profitable in FY2016.

The ratings continue to factor in the intensifying competition in the domestic jewellery retail space with all major players expanding across markets (which could limit growth potential and restrict margin expansion) and high working capital requirements in the business accentuated by its continuous expansion plans. These concerns are mitigated to an extent by the strong operational profile of the company, strong market position in the south, improving business diversification across non-south markets, wide product portfolio and expected growth in domestic demand with increasing penetration of the organized sector. The ability of the company to improve its revenues and earnings amidst the tight competition and also support its credit profile given the expansion envisaged (albeit toned down) would remain key rating sensitivities.

Company Profile

Kalyan Jewellers India Limited (erstwhile Kalyan Jewellers India Private Limited), managed by Mr. T.S. Kalyanaraman and his sons, is an established jewelry retail player in southern India, enjoying a longstanding presence in the market for more than two decades. As on August 31, 2016, the Company has 79 retail outlets in India. While the showrooms are primarily spread across the southern Indian markets of Tamil Nadu, Kerala, Andhra Pradesh, Telangana and Karnataka, the company had also commenced operations in other regional markets of Gujarat, Maharashtra, Punjab, Delhi, Orissa, Rajasthan and West Bengal from September 2012. Of the 79 retail outlets, 26 outlets are spread across non-southern regions. In December 2013, KJIL had expanded its footprint into the Middle Eastern market with six showrooms; and as on August 31, 2016, the company has 21 stores in those geographies. The stores in the Middle East are operated under the entities, Kalyan Jewellers LLC (UAE), Kalyan Jewellers WLL (Qatar), and Kalyan Jewellers for Golden Jewelleries WLL (Kuwait).

During October 2014, the company received Rs. 700.0 crore of private equity (PE) investments in the form of Compulsorily Convertible Preference Shares (CCPS) from Highdell Investment Limited (Warburg Pincus group). In addition, the promoters diluted a portion of their stake directly to the PE firm. Upon conversion, Highdell Investment Limited would hold 20% stake in the company, while the remaining 80% would be held by the promoter group. PE proceeds were primarily used to fund the incremental working capital requirement for the new outlets.

Recent Results

According to unaudited results, on standalone basis, the company reported a net profit of Rs. 3.7 crore on an operating income of Rs. 8,085.0 crore during FY2016, as against a net profit of Rs. 51.8 crore on an operating income of Rs. 7,338.8 crore during FY2015.

According to unaudited results, on consolidated basis, the company reported a net profit of Rs. 15.2 crore on an operating income of Rs. 10,569.0 crore during FY2016, as against a net profit of Rs. 39.4 crore on an operating income of Rs. 8,665.3 crore during FY2015.

September 2016

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