September 08, 2017

Thangamayil Jewellery Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)[1]	Rating Action
Long-term - Fund based facilities	231.00 [enhanced from 122.00]	[ICRA]BBB- /reaffirmed; outlook revised from stable to positive
Short-term - Non-fund based facilities (sub-limit)	(169.50) [enhanced from (60.50)]	[ICRA]A3/ reaffirmed
Long-term/Short-term – Proposed facilities	9.00 [revised from 48.00]	[ICRA]BBB- / [ICRA]A3; reaffirmed; outlook revised from stable to positive
Fixed Deposit Programme	48.00	MA- (Stable)/ reaffirmed
Total	**288.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 231.00 crore (enhanced from Rs. 122.00 crore) fund based facilities of Thangamayil Jewellery Limited (TJL) at [ICRA]BBB- (pronounced ICRA triple B minus)[2]. The outlook on the long-term rating is revised from stable to positive. ICRA has also reaffirmed the short-term rating outstanding on the Rs. 169.50 crore (revised from Rs. 60.50 crore) non-fund based (sub-limit) facilities of the company at [ICRA]A3 (pronounced ICRA A three). For TJL's Rs. 9.00 crore (revised from Rs. 48.00 crore) proposed facilities, ratings of [ICRA]BBB- or [ICRA]A3 would apply contingent upon the tenor of the availed facilities.

ICRA has also reaffirmed the rating outstanding on TJL's Rs. 48.0 crore fixed deposit programme at MA- (pronounced M A minus) with a stable outlook.

Rationale

The ratings factor the healthy improvement in TJL's financial profile during FY2017 and Q1 FY2018 marked by steady growth in earnings, cash flows and liquidity position. Improving demand scenario post demonetisation, strong focus on reduction in operating costs and enhanced availability of low cost gold metal loans (GML) have supported the performance. The revision in rating outlook to 'positive' considers the expected strengthening of TJL's credit profile, aided by favourable demand outlook for organised jewellery retailers, better financing environment and the company's strong brand name and presence in South Tamil Nadu (TN). The ratings also consider the limited pricing flexibility operating in an intensely competitive gold jewellery retail business, and increased regulatory risks in the industry in recent years, which can impact the business profile, as witnessed in the past. The ratings also factor the high working capital intensity due to increased stocking requirements at new stores and vulnerability of earnings to the volatility in gold prices (given the limited value addition in the business).

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Key rating drivers

Credit strengths

- **Established brand name in Southern parts of TN -** TJL has 31 stores (as of June 2017) and commands a strong brand name in the Tier II and Tier III cities of South TN. Aided by the promoters experience of almost seven decades in the jewellery retail industry, the company holds major market share in most of the key regions it operates.

- **Strong revival in demand post demonetisation -** The demand for gold jewellery was weak during the period, April to December 2016 affected by elevated gold prices and currency demonetisation. However the demand recovered during H1 CY2017 aided by revival in rural demand, improved liquidity with fading impact of demonetisation, higher number of auspicious days, and pre-buying ahead of the GST.

- **Renewed availability of metal loans has aided in lower interest costs –** With improving demand scenario, availability of GML was better in the industry; metal loan provides the dual benefit of lower rate of interest and a natural hedge against rising gold prices. The average interest cost for TJL has reduced from 9.4% (FY2016) to 8.7% (FY2017).

- **Improvement in financial profile –** Improvement in net cash accruals (up 22% in FY2017) coupled with increased share of funding from GML and customer advances led to healthy improvement in TJL's debt indicators. Total outside liabilities to networth stood at 1.9 times in FY2017 (against 1.8 times in FY2016) and the interest coverage ratio stood at 2.3 times in FY2017 (against 1.9 times in FY2016). The working capital intensity remains moderate, inherent to the nature of business given the stocking requirements. The performance in Q1FY2018 was strong with 19% increase in revenues and 70 bps expansion in net margins.

Credit weaknesses

- **Intensifying competition limits pricing flexibility** - The gold jewellery retail business is highly competitive with large presence of unorganised players. This coupled with major store expansions by larger retailers in the recent fiscals has intensified the existing competition and limited the pricing flexibility amongst the players. While TJL has also penetrated other regions (reach expanded from 24 stores in FY2013 to 31 stores in FY2017), the company still operates only within TN.

- **High regulatory related challenges -** Since FY2014, the Indian jewellery retail industry has been witnessing increased regulatory intervention which impacted the operating environment and consequently the financial performance of jewellers. Measures like 20/80 restriction on imports, limited access to metal loans albeit for a brief period, mandatory PAN card disclosure requirement for purchases to Rs.2 lakh, curb on jewellery saving schemes, imposition of excise duty, demonetisation etc., had its effect on both demand and supply.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Gold Jewellery Retail Industry

About the company:

TJL 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.

During Q1 FY2018, TJL reported a net profit of Rs. 9.6 crore on an operating income of Rs. 434.3 crore, as compared to net profit of Rs. 4.5 crore on an operating income of Rs. 289.0 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1274.0	1293.8
PAT (Rs. crore)	10.5	13.9
OPBDIT/ OI (%)	3.6%	3.8%
RoCE (%)	13.3%	14.9%
Total Debt/ TNW (times)	1.1	0.8
Total Debt/ OPBDIT (times)	3.2	2.4
Interest coverage (times)	1.9	2.3
NWC/ OI (%)	14.4%	12.8%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating	Date & Rating	Date & Rating
				Sept'17	Aug'16	Sept'15	Aug'14
1	Cash Credit	Long Term	231.0	[ICRA]BBB- (positive)	[ICRA]BBB- (stable)	[ICRA]BB+ (stable)	[ICRA]BB+ (stable)
2	Letter of Credit (sub-limit)	Short Term	(169.5)	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
3	Unallocated	Long term/ short term	9.00	[ICRA]BBB- (positive)/ [ICRA]A3	ICRA]BBB- (stable)/ [ICRA]A3	ICRA]BB+ (stable)/ [ICRA]A4+	ICRA]BB+ (stable)/ [ICRA]A4+
4	Fixed Deposits	Medium Term	48.00	MA- (stable)	MA- (stable)	MB+ (stable)	MB+ (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	231.0	[ICRA]BBB- (positive)
	Letter of Credit (sub-limit)	-	-	-	(169.5)	[ICRA]A3
	Unallocated	-	-	-	9.00	[ICRA]BBB- (positive)/ [ICRA]A3
	Fixed Deposits	-	-	-	48.00	MA- (stable)

Source: TJL

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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.

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