October 09, 2017

Kalyan Jewellers India Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)[1]	Rating Action
Long term: Term loans	350.0 (revised from 366.0)	[ICRA]A- (positive) / reaffirmed; outlook revised to positive
Long term: Fund based facilities	Nil (revised from 2,559.0)	-
Short term: Fund based facilities	Nil (revised from 75.0)	-
Short term: Fund based / Non fund based (sub limits)	(1,440.0) (revised from 1,265.0)	[ICRA]A2+ / reaffirmed
Long/short term – Fund based	2,772.0 (revised from Nil)	[ICRA]A- (positive) / [ICRA]A2+ /reaffirmed; outlook revised to positive
Medium term – Fixed deposit	400.0	MA- (positive) / reaffirmed; outlook revised to positive

* Instrument details are furnished in Annexure-1

Rating action

ICRA has reaffirmed the ratings of [ICRA]A- (pronounced ICRA A minus)[2] and [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 350.0 crore term loans, Rs. 2,772.0 fund based limits, and Rs. 1,440.0 crore fund / non-fund based sub-limits of Kalyan Jewellers India Limited (KJIL)[1]. ICRA has also reaffirmed the medium term rating of Rs. 400.0 crore fixed deposit programme of KJIL. The outlook on the long-term rating and medium term rating has been revised from 'stable' to 'positive'.

Rationale

The revision in the outlook to positive considers the expected improvement in KJIL's credit profile supported by favourable demand outlook for jewellery retail business in FY2018, particularly for organised players with increasing formalisation of the sector. Strengthening business profile in terms of earnings growth while improving the adjusted leverage on a sustained basis from FY18 onwards, will be positive for the ratings.

The ratings remain supported by KJIL's market position in the Indian jewellery retail market and its increasing presence across India and Middle East; strong brand image; vast experience of the promoters supported by a professional management and shareholding by private equity (PE) player - Highdell Investment Limited (Warburg Pincus group), providing additional comfort on systems and governance. In April 2017, KJIL raised Rs. 500.0 crores of expansion capital by way of compulsorily convertible preference shares (CCPS) taking the cumulative investment by PE to Rs. 1,700.0 crore for ~30% stake. Continued investments from PE in April 2017, which will be used to fund the near-term store expansions, better availability of low-cost gold metal loans (GML) and improving product mix with rising share of margin-accretive studded jewellery sales further underpin the ratings. The ratings are constrained by low return on capital employed (RoCE) and moderate debt coverage indicators as of March 2017 as KJIL's expansion into new territories pushed up inventory and working capital requirements. Benefits from new store additions in last two years will be visible with demand recovery over the next 12 to 24 months and management's measures towards cost control and pricing. Accordingly, KJIL's revenues and profitability indicators are expected to improve in FY2018; better accruals and PE fund infusion should support the

[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*

capital structure although the improvement in coverage ratios will hinge on pruning the operating cycle. The ratings also consider the impact of any government's policy interventions on the business profile of jewellery retailers, including KJIL.

Key rating drivers

Credit strengths

- **Strong market position, diversification and brand equity -** Aided by vast experience of the promoter, strong brand equity, design capabilities and increased acceptance of its products in new geographies, KJIL is one of the major players in domestic jewellery retail business. KJIL has 87 showrooms in India and 27 showrooms in Middle East (as of September 2017). Though the share of revenues from South India remains high at 72% (FY2017), most of the new stores opened in last two years were in non-south markets; this provides a geographically diversified presence mitigating risk of demand slowdown in any specific region. Also, higher preference for studded and diamond jewellery in such markets, is expected to support margins.
- **Additional PE fund infusion to fuel growth** – In October 2014, Warburg Pincus group invested Rs. 1,200 crore in KJIL, this translated to an equity stake of 24% as of March 2017. The proceeds were applied for expansion of stores giving KJIL a pan India presence, apart from improving KJIL's liquidity position and capital structure. Further in April 2017, follow-on funding from the PE in the form of CCPS raised an additional Rs. 500 crore, which upon conversion will take PE stake to 30%. The funds will support KJIL's future store expansions; it plans to open ten showrooms each in India and Middle East in FY2018.
- **Strong demand recovery to boost FY2018 performance -** KJIL's revenues and profits in FY2017 was affected by de-growth in gold sales due to subdued demand, limited footfall conversion from its jewellery schemes and aggressive competitive pricing in the industry. However, there has been a sharp rebound in Q1FY2018 supported by recovery in rural demand with favourable farm output and monsoons, higher number of auspicious days, lower gold prices and opportunistic buying ahead of the GST rollout.

Credit weaknesses

- **Intense competition limits pricing flexibility** – Demand outlook for organized jewellery retailers is favourable underpinned by increasing formalization of the sector and strong cultural affinity for gold. Nevertheless, the gold jewellery retail business is highly fragmented and competitive; with major store expansions by larger retailers in the recent years intensifying competition and limiting the pricing flexibility amongst the players. While KJIL has penetrated into more regions than other retailers, the competition remains high particularly in its dominant markets in South India.
- **Regulatory risks -** Since FY2014, the Indian jewellery retail industry has been witnessing increased regulatory intervention which impacted the operating environment and consequently the financial performance of jewelers, including KJIL. The sector remains susceptible to the regulatory risks, which has affected demand in the past. That said, GST is a long term positive for organised players who are expected to gradually capture the market share of unorganised players.
- **Moderate debt coverage metrics** – With competitive pricing across the industry, break-even of newer stores has been slower than expected, which coupled with sluggish demand amidst elevated gold prices and deferment of purchases during period of demonetisation affected KJIL's standalone revenues in FY2017 (down 6% YoY). However with healthy sales growth envisaged with rebounding demand for gold jewellery, rising share of margin-accretive studded jewellery, management's measures to control operating costs, and lower interest outflow with increasing low-cost GML funding gold purchases and store expansions being largely funded through PE funds, ICRA expects KJIL's capital structure to improve during FY2018 with estimated gearing (Total outside liability (TOL) to Tangible networth (TNW) correcting to 1.8x (PY: 2.6x) and TOL to OPBDITA improving

to 7.0x (PY: 8.8x). KJIL's ability to prune the operating cycle will be critical for reduction in TOL to OPBDITA.

Nevertheless, jewellery retailing is inherently a working capital intensive business as optimal stocking of jewellery with large design collections is required to convert footfalls into sales. With KJIL's aggressive store expansions in recent years, inventory stocking requirements, part funded through equity, have increased.

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:
Kalyan Jewellers India Limited (erstwhile Kalyan Jewellers India Private Limited), managed by Mr. T.S. Kalyanaraman and his sons, is an established jewellery retail player in southern India, enjoying a long standing presence in the market for more than two decades. As of August 2017, KJIL had 87 retail outlets in India. While the showrooms are primarily spread across the southern Indian markets of TamilNadu, Kerala, Andhra Pradesh, Telangana and Karnataka, the company also has operations in othermarkets like Gujarat, Maharashtra, Punjab, Delhi, Orissa, Rajasthan and West Bengal. In December 2013, KJIL had expanded its footprint into the Middle Eastern market with six showrooms; and as of August 2017, the company has 27 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). Highdell Investment Limited (Warburg Pincus group) holds 24% stake in KJIL. In addition, the PE has invested Rs. 500.0 crore in April 2017 in the form of CCPS, which upon conversion will take the overall stake to ~30%.

Key financial indicators (Audited)

Standalone	**FY2016**	**FY2017**
Operating Income (Rs. crore)	7,981.3	7,495.3
PAT (Rs. crore)	24.6	78.8
OPBDIT/ OI (%)	2.8%	6.3%
RoCE (%)	7.7%	9.9%
Total Debt/ TNW (times)	1.8	1.8
Total Debt/ OPBDIT (times)	12.5	6.2
Interest coverage (times)	0.8	1.4
NWC/ OI (%)	31.6%	36.3%

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 in FY2017**	**Date & Rating in FY2016**	**Date & Rating in FY2015**
				October 2017	**September 2016**	**March 2016**	**December 2014**
1	Term loan	Long Term	350.0	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based facilities	Long Term	Nil (revised from 2,559.0)	-	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund based facilities	Short Term	Nil (revised from 75.0)	-	[ICRA]A2+	[ICRA]A 1	[ICRA]A1
4	Fund based / Non fund based (sub limits)	Short Term	1440.0 (revised from 1265.0)	[ICRA]A2+	[ICRA]A2+	[ICRA]A 1	[ICRA]A1
5	Fund based	Long / Short Term	2772.0	[ICRA]A- (Positive) /[ICRA]A2 +	-	-	-
6	Fixed deposits	Medium term	400.0	MA- (positive)	MA- (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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loans	-		FY2019, FY2021 and FY2022	350.0	[ICRA]A-(Positive)
Fund based facilities	-	-	-	2772.0	[ICRA]A-(Positive) [ICRA]A2+
Fund based / Non-fund based sub-limits	-	-	-	(1,440.0)	[ICRA]A2+
Fixed deposits				400.0	MA- (positive)

Source: KJIL

CONTACT DETAILS

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra P
+91 44 4596 4314
pavethrap@icraindia.com

K Srikumar
+91 44 45964318
k.srikumar@icraindia.com

Relationship Contact

JayantaChatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	