Thangamayil Jewellery Limited

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based facilities	231.00	231.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Positive)
Short-term - Non-fund based facilities (sub-limit)	(169.50)	(169.50)	[ICRA]A3+; upgraded from [ICRA]A3
Long-term/Short-term – Proposed facilities	9.00	9.00	[ICRA]BBB(Stable)/ [ICRA]A3+; upgraded from [ICRA]BBB-(Positive)/ [ICRA]A3
Fixed Deposit Programme	48.00	48.00	MA- (Stable)/ reaffirmed
Total	**288.0**	**288.0**	

Rating action

ICRA has upgraded the long term rating from [ICRA]BBB- (pronounced as ICRA triple B minus)[1] to [ICRA]BBB (pronounced as ICRA triple B) for the Rs. 231.00 crore[2] fund based facilities of Thangamayil Jewellery Limited (TJL). The outlook on the long-term rating is stable. ICRA has also upgraded the short-term rating from [ICRA]A3 (pronounced as ICRA A three) to [ICRA]A3+(pronounced as ICRA A three plus) for the Rs. 169.50 crore non-fund based (sub-limit) facilities of the company. For TJL's Rs. 9.00 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 upgrade in ratings factor the sustained improvement in financial risk profile during H1FY2018 characterized by the steady growth in earnings, cash flows and improvement in the debt coverage metrics. Revenues grew by ~18% YoY during H1 FY2018 led by improving demand, especially for organised retailers, apart from supportive factors like TJL's strong brand name in South Tamil Nadu (TN) and the long standing promoter experience in jewellery retail industry.

The ratings also factor the improvement in the accruals position (profits up 69% YoY) aided by higher revenues providing scale benefits, increasing revenue concentration towards margin accretive products and cost control measures undertaken and enhanced availability of low cost gold metal loans (GML).

However, the ratings remain constrained by the limited pricing flexibility operating in an intensely competitive retail business, increased regulatory risks in the industry with impact on demand and supply as witnessed in recent years, and the rising working capital intensity due to the increased stocking requirements at new stores and higher debt levels to fund the same.

1 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
2 100 lakh = 1 crore = 10 million

Outlook: Stable

ICRA believes TJL will continue to benefit from the strong brand name in South TN and the long standing experience of the promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

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. The promoters' long standing experience in the jewellery retail industry and the company's established presence in most of the key regions it operates supports TJL's operational profile.

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 an effective hedge against rising gold prices.

Improvement in revenues and profitability – During H1 FY2018, TJL's net cash accruals increased by 43% aided by a healthy 18% revenue growth and 21% improvement in operating profits. Further, the growth in accruals was supported by lower interest outgo on account of enhanced usage of GML, despite the increase in the overall debt levels.

Credit weaknesses

High working capital intensity– Jewellery retailing business is inherently high working capital intensive in nature, especially with increased store presence, the working capital requirements have gone up. TJL's working capital intensity increased from 12.8% (FY2017) to 16.8% (H1 FY2018) due to the higher inventory levels maintained by the company. While TJL has largely funded the inventory needs through GML, the company's ability to optimize the inventory usage across stores going forward, at the same time maintaining its market positioning will be a key monitorable.

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), it 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 H1 FY2018, TJL reported a net profit of Rs. 13.7 crore on an operating income of Rs. 707.8 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)

	FY 2016	FY 2017
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%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2018) Date & Rating Dec'17	Sep'17	Chronology of Rating History for the past 3 years Date & Rating in FY2017 Aug'16	Date & Rating in FY2016 Sept'15	Date & Rating in FY2015 Aug'14
1	Cash Credit	Long Term	231.0	NA	[ICRA]BBB (stable)	[ICRA]BBB (positive)	[ICRA]BBB- (stable)	[ICRA]BB+ (stable)	[ICRA]BB+ (stable)
2	Letter of Credit (sub-limit)	Short Term	(169.5)	NA	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
3	Unallocated	Long term/ short term	9.00	NA	ICRA]BBB (stable)/ [ICRA]A3+	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	NA	MA- (stable)	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	231.0	[ICRA]BBB (stable)
NA	Letter of Credit (sub-limit)	-	-	-	(169.5)	[ICRA]A3+
NA	Unallocated	-	-	-	9.00	[ICRA]BBB (stable)/ [ICRA]A3+
NA	Fixed Deposits	-	-	-	48.00	MA- (stable)

Source: TJL

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