Thangamayil Jewellery Limited

September 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based facilities	231.00	291.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short-term - Non-fund based facilities (sub-limit)	(169.50)	(169.50)	[ICRA]A2; upgraded from [ICRA]A3+
Long-term/Short-term – Proposed facilities	9.00	9.00	[ICRA]BBB+(Stable)/ [ICRA]A2; upgraded from [ICRA]BBB(Stable)/ [ICRA]A3+
Fixed Deposit Programme	48.00	48.00	MA- (Stable)/ reaffirmed
Fixed Deposit Programme	-	11.00	MA- (Stable)/ assigned
Total	**288.0**	**359.0**	

Rating action

ICRA has upgraded the long term rating from [ICRA]BBB (pronounced as ICRA triple B)[1] to [ICRA]BBB+ (pronounced as ICRA triple B plus) for the Rs. 291.00 crore[2] (enhanced from Rs.231 crore) 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 plus) to [ICRA]A2 (pronounced as ICRA A two) 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]A2 would apply contingent upon the tenor of the availed facilities.

ICRA has also reaffirmed the rating outstanding on TJL's Rs. 59.0 crore (enhanced from Rs.48 crore) fixed deposit programme at MA- (pronounced M A minus) with a stable outlook.

Rationale

The rating action considers the improvement in financial risk profile of the company during FY2018 and Q1 FY2019 characterized by the steady growth in earnings and debt coverage metrics. Increasing shift towards organised trade post demonetisation and Goods and Service Tax (GST) supported TJL, which reported a strong ~19% YoY growth in revenues (adjusted for bullion trading) during FY2018. The growth was also aided by TJL's established brand presence in South Tamil Nadu (TN), long-standing experience of the promoters in jewellery retail industry, and stabilisation of the new stores commenced in recent years. The revenues are expected to grow by ~8-10% y-o-y during FY2019 supported by new store additions, and favourable demand for gold and diamond jewellery.

TJL's accruals position has improved during FY2018 (PAT up 30% YoY) aided by higher revenues providing scale benefits, cost control measures undertaken and enhanced availability of low cost gold metal loans (GML). For Q1FY2019, the operating and net profits grew by 10% y-o-y despite moderation in revenues due to high base effect. The operating

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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

margins are expected to expand going forward supported by increasing revenues and higher concentration towards margin accretive products.

The ratings continue to take cognisance of 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. Despite the increase in debt levels, TJL's debt coverage metrics are comfortable with interest coverage ratio of 3.2 times and 4.3x during FY2018 and Q1FY2019 respectively. Going forward, TJL's ability to achieve early stabilisation of new stores while maintaining optimal debt levels will be key credit monitorable.

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 which shall translate to stable growth in revenues. 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 stretch in the working capital cycle, weakens liquidity position of the company.

Key rating drivers

Credit strengths

Established brand name in Southern parts of TN - TJL has 31 stores (as of Sept 2018) 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.

Healthy growth in earnings and improvement in coverage indicators– During FY2018, TJL's net cash accruals increased by 26% aided by a 21% growth in operating profits and lower interest outgo (amidst rising debt levels) because of enhanced usage of GML. This resulted in improvement in interest coverage ratio 3.2x (FY2018) and 4.3x (Q1FY2019). GML provides the dual benefit of lower rate of interest and an effective hedge against rising gold prices. The working capital debt has increased as of March 2018 with increasing stocking done at existing stores (to drive footfalls) ahead of Akshaya Tritiya and new stores, apart from rising share of diamond sales. The liquidity profile, however remains comfortable with average working capital utilisation of 72% (against sanctioned limits) in the last one year. TJL's ability to translate the same into footfalls and achieve higher revenue growth while maintaining the debt levels will be key monitorables.

Favourable demand outlook for organised jewellery retailers over the medium term – Jewellery consumption in India has been traditionally driven by the strong cultural affinity for gold, with gold being the preferred form of jewellery. Stable wedding and festive demand are likely to keep the demand sentiments strong. While the demand-supply metrics remain vulnerable to any policy initiatives of the Government, these regulations have resulted in faster formalisation of the sector, thus supporting organised retailers like JIPL.

Credit weaknesses

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 18% (FY2017) to 25% (FY2018) due to the higher inventory levels maintained by the company.

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 FY2018), 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. That said, these regulatory measures have benefited organised jewellers like TJL resulting in accelerated formalisation of the sector.

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 Entities in 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 FY2019, TJL reported a net profit of Rs. 10.4 crore on an operating income of Rs. 387.5 crore, as compared to net profit of Rs. 9.6 crore on an operating income of Rs. 434.3 crore during Q1 FY2018.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	1293.8	1379.5
PAT (Rs. crore)	13.9	22.7
OPBDIT/ OI (%)	3.8%	4.2%
RoCE (%)	12.5%	13.7%
Total Debt/ TNW (times)	1.2	1.6
Total Debt/ OPBDIT (times)	3.7	4.7
Interest coverage (times)	2.3	3.2
NWC/ OI (%)	18%	25%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Sep'18	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Dec'17	Sep'17	Date & Rating in FY2017 Aug'16	Date & Rating in FY2016 Sept'15
1	Cash Credit	Long Term	291.0	NA	[ICRA]BBB+ (stable)	ICRA]BBB stable)	ICRA]BBB positive)	[ICRA]BBB- (stable)	[ICRA]BB+ (stable)
2	Letter of Credit (sub-limit)	Short Term	(169.5)	NA	[ICRA]A2	ICRA]A3+	ICRA]A3	[ICRA]A3	CRA]A4+
3	Unallocated	Long term/ short term	9.00	NA	[ICRA]BBB+ (stable)/ [ICRA]A2	ICRA]BBB stable)/ ICRA]A3+	ICRA]BBB positive)/ ICRA]A3	ICRA]BBB- stable)/ ICRA]A3	ICRA]BB+ stable)/ ICRA]A4+
4	Fixed Deposits	Medium Term	48.00	NA	MA- (stable)	ЛA- stable)	ЛA- stable)	MA- (stable)	MB+ (stable)
5	Fixed Deposits	Medium Term	11.00	NA	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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	291.0	[ICRA]BBB+ (stable)
NA	Letter of Credit (sub-limit)	-	-	-	(169.5)	[ICRA]A2
NA	Unallocated	-	-	-	9.00	[ICRA]BBB+ (stable)/ [ICRA]A2
NA	Fixed Deposits	-	-	-	59.00	MA- (stable)

Source: TJL

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About ICRA Limited:

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