September 09, 2019

Thangamayil Jewellery Limited: Ratings reaffirmed

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	291.00	255.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term (Interchangeable) ^	(169.50)	(255.00)	[ICRA]A2; reaffirmed
Long-term/Short-term – Proposed facilities	9.00	45.00	[ICRA]BBB+ (Stable) / [ICRA]A2; reaffirmed
Medium-term – Fixed Deposit	59.00	59.00	MA- (Stable); reaffirmed
Total	**359.00**	**359.00**	

**Instrument details are provided in Annexure-1;*

Rationale

The reaffirmation of ratings considers Thangamayil Jewellery Limited's (TJL) established presence in southern Tamil Nadu and the extensive experience of its promoters in the gold jewellery retail industry. The ratings also factor in the stable financial profile characterised by modest revenue growth of 4.8% in FY2019 (amid a 2.4% drop in gold jewellery volumes) and improvement in capitalisation and coverage indicators, aided by reduction in debt levels and healthy growth in operating profits. In FY2019, TJL's interest coverage ratio marginally improved to 3.5 times (from 3.2 times in FY2018), total debt/OPBITDA and gearing (total debt/net worth) improved to 3.4 times and 1.3 times respectively (from 4.6 times and 1.7 times, respectively as on March 31, 2018). TJL's increased usage of the low-cost gold metal loans (GML) towards funding the inventory continue to support interest coverage ratio and boost earnings apart from acting as an effective hedge against fluctuating gold prices.

The ratings, however, remain constrained by the high geographical- and product-concentration risks as the company derived its entire revenue from the Tamil Nadu market and over 90% of revenues from gold jewellery in FY2019. The rating strengths are also offset to an extent by the moderate scale of operations and profit margins due to the limited value addition and intense competition in the jewellery retailing industry, which limits the pricing power of retailers. The ratings also factor in the increasing inventory holding by the company with commencement of new stores and the rising share of diamond sales, as well as the accentuated regulatory risks which affected both demand and supply in the past.

The Stable outlook on the medium-term and long-term ratings reflects ICRA's opinion that TJL will continue to benefit from its strong brand name in southern Tamil Nadu and the extensive experience of its promoters.

Key rating drivers

Credit strengths

Established brand name in southern Tamil Nadu - TJL has 43 stores (as of August 2019) and commands a strong brand name in tier-II and tier-III cities of southern Tamil Nadu with a dominant market position in its key market, Madurai. The promoters' extensive experience in the jewellery retail industry and the company's established presence in most of its key regions of operations supports TJL's operational profile.

Strong financial profile – TJL's strong financial profile is marked by a healthy 16.2% and 15.0% increase in OPBDITA and cash profits, respectively in the last three years (CAGR as of FY2019), while the net debt levels increased by only 5.7% buffered by a sharp rise in customer advances (up 44.4%). In FY2019, the company's revenues grew by a modest 4.8% amid subdued demand environment. However, its operating profits grew 17.9% YoY owing to better cost controls and rising share of diamond jewellery sales. This consequently resulted in an improvement in its debt metrics with interest coverage of 3.5 times in FY2019 (PY: 3.2 times) and total debt/OPBITDA of 3.4 times as on March 31, 2019 (PY: 4.6 times). The company's gearing also improved to 1.3 times as on March 31, 2019 (PY: 1.7 times). TJL's increased usage of the low-cost GML towards funding inventory continue to support its interest coverage ratio and boost earnings, apart from acting as an effective hedge against fluctuating gold prices.

Favourable long-term demand – The sharp rise in gold prices (up more than 20% in last three months) shall impact the near-term gold jewellery demand, although the higher number of auspicious days may offset the impact. The medium-to-long term demand outlook, however, remains favourable supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and growing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency and higher compliance costs have resulted in a churn in unorganised segment, benefiting the organised players. TJL is well positioned to tap the incremental demand, given its wide presence, reputed brand name and strong hedging practices.

Credit challenges

Sub-par monsoons in Tamil Nadu and rising gold prices affect TJL's gold jewellery sales volumes in FY2019; subdued demand outlook for FY2020: TJL's gold jewellery sales volumes contracted ~2.4% YoY in FY2019 on account of subdued demand owing to poor rainfall in southern Tamil Nadu and rise in gold prices which affected consumer sentiments. Due to various factors such as trade tensions between USA and China, dovish monetary policies by key central banks, weakening consumer and business confidence in Europe, and higher stocking of gold by key central banks to their reserves, gold prices have been higher in the current fiscal, impacting gold jewellery demand. That said, higher number of auspicious days and the upcoming wedding season are expected to partly offset the impact.

Moderately high working capital intensity with high inventory turnover: Jewellery retailing business is inherently working capital intensive because of the optimal inventory required to be maintained across the stores, given the need to display varied designs of jewellery to customers. With the addition of four new stores in the last two years and the rising share of diamond sales, TJL's stocking levels have gone up, which increased to 137 days as on March 31, 2019 vis-à-vis 93 days as on March 31, 2017. The company's ability to improve stock rotation and working capital cycle will be a critical credit monitorable.

Concentration risks: As of August 2019, TJL has 43 stores across tier-II and tier-III cities in southern Tamil Nadu, largely catering to rural demand. With entire revenue derived from Tamil Nadu, the company is exposed to risks of high geographical concentration. Nevertheless, its established brand presence in the region it operates and strong customer base acts as risk mitigants. With presence only in Tamil Nadu, where the preference is largely towards gold jewellery, over 90% of its revenues were derived from the sale of the same in FY2019, exposing TJL to high product-concentration risk and limiting the scope for margin expansion. That said, the revenue contribution from silver and diamond jewellery gradually increased to 8.7% in FY2019 from 5.5% in FY2015, owing to the increasing focus of the company on diversifying its revenue streams. Additionally, with ~15 stores to be opened in FY2020 (under the initiative of TMJ Plus) to be focused primarily on the sale of silver jewellery, the product-concentration risk is expected to reduce further going forward.

Competition, regulatory risks and cautious lending environment – The gold jewellery retail business is highly competitive with several unorganised players. This coupled with major store expansions by larger retailers in the recent fiscals has further intensified competition and limited pricing flexibility among players. While TJL has penetrated other regions (reach expanded from 24 stores in FY2013 to 43 stores as of August 2019), it still operates only within Tamil Nadu. The increased regulatory intervention in jewellery retail industry in the recent years has impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to GML (albeit for a brief period), mandatory Permanent Account Number (PAN) disclosure requirement for purchases above Rs. 2 lakh, restrictions on jewellery saving schemes, imposition of excise duty, increase in import duty, demonetisation, GST implementation, inclusion of jewellery sector under Prevention of Money Laundering Act (albeit for a brief period) affected both demand and supply. Increasing supervision and cautious lending environment further restricted fund flows to the sector, hampering the store expansion plans of retailers.

Liquidity Position: Adequate

The company's liquidity position is **adequate** with positive cash flow from operations of Rs. 63.7 crore in FY2019 and average working capital utilisation of ~72.1% of the sanctioned limits for the 12-month period that ended in June 2019. The company also has cash and liquid investments of Rs. 19.4 crore as on March 31, 2019 and undrawn working capital limits of Rs. 24.5 crore and unutilised fixed deposit (FD) lines of ~Rs. 11 crore as on March 31, 2019, which lends support to the company's liquidity profile. TJL has FD repayments of Rs. 22.4 crore in FY2020, which shall be serviced through internal accruals. ICRA expects the company's liquidity profile to remain adequate going forward.

Rating sensitivities

Positive triggers – Sustained growth in scale of operations and earnings, improved business diversification and better inventory management (with stock rotation above 3.0 times on a sustained basis) will be the key triggers for a rating upgrade.

Negative triggers – Negative pressure will emanate with sharp deterioration in the earnings or rise in debt levels, lower levels of stock rotation (at less than 2.3 times) on a sustained basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

Thangamayil Jewellery Limited (TJL) is a jewellery retailer based out of Madurai, Tamil Nadu. It was established as a proprietorship firm by Mr. Baluswamy Chettiar in 1947. Following the re-constitutions in 2000 and 2007, it was converted into a public limited entity and post an initial public offer (IPO) in January 2010, it is currently listed on the Bombay Stock Exchange and National Stock Exchange. The company is at present managed by Mr. Balarama Govinda Das, Mr. Ba. Ramesh, and Mr. N.B. Kumar, who are the sons of the promoter. TJL has 43 jewellery outlets across Tamil Nadu as on August 31, 2019.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,377.7	1,443.6
PAT (Rs. crore)	22.9	30.3
OPBDIT/OI (%)	4.4%	4.9%
RoCE (%)	13.7%	15.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.4
Total Debt/OPBDIT (times)	4.6	3.4
Interest Coverage (times)	3.2	3.5
DSCR	1.3	1.0

Source: company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					09-Sept'19	21-Sept'18	21-Dec'17	08-Sep'17	04-Aug'16
1	Cash Credit	Long Term	255.00	NA	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	[ICRA]BBB- (positive)	[ICRA]BBB- (stable)
2	LC/Gold Metal Loan (sub-limit)	Short Term	255.00	NA	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3
3	Unallocated	Long term/ short term	45.00	NA	ICRA]BBB+ (stable)/ [ICRA]A2	ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB (stable)/ [ICRA]A3+	[ICRA]BBB- (positive)/ [ICRA]A3	[ICRA]BBB- (stable)/ [ICRA]A3
4	Fixed Deposits	Medium Term	59.00	NA	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)	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	-	9.30-11.65%	-	255.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit/Gold Metal Loan (sub-limit)	-	1.95-3.50%	-	(255.00)	[ICRA]A2
NA	Unallocated	-	NA	-	45.00	[ICRA]BBB+ (Stable)/A2
NA	Fixed Deposit	-	8.50%-9.50%	-	59.00	MA- (Stable)

Source: Thangamayil Jewellery Limited

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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.

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.

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