September 24, 2020

Thangamayil Jewellery Limited: Ratings assigned on enhanced FD limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	260.00	260.00	[ICRA]BBB+ (Stable); outstanding
Short-term (Interchangeable) ^	(260.00)	(260.00)	[ICRA]A2; outstanding
Long-term/Short-term – Proposed facilities	40.00	40.00	[ICRA]BBB+ (Stable) / [ICRA]A2; outstanding
Medium-term – Fixed Deposit	59.00	77.00	MA- (Stable); outstanding on existing limits and assigned on enhanced limits
Total	**359.00**	**377.00**	

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

Rationale

The ratings remain supported by 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 remain supported by its strong financial profile characterised by healthy growth in revenues and operating profits and consequent improvement in debt protection metrics. As against the industry-wide contraction in gold volumes amid higher gold prices and weak consumer sentiments, the company posted a muted volume growth on the back of steady rural demand, increased concentration in tier-II/III cities, focused sales initiatives, and better traction in jewellery saving schemes.

The company's revenues grew by 17.2% YoY in FY2020 on the back of higher gold price realisations and strong growth in sales of silver jewellery and diamond ornaments, respectively (albeit on a lower base). The operating margins expanded by 90 bps YoY in FY2020, supported by higher sales contribution from margin-accretive gold and diamond jewellery ornaments, better stock rotation and higher gold price realisations. This includes hedging loss of ~Rs. 18.2 crore with TJL's increased usage of gold metal loans (GML) and hedging done on spot purchase of jewellery amid rising gold prices. TJL's debt levels as of March 2020 increased by ~12% YoY, given the build-up of stock ahead of Akshaya Tritiya. Nevertheless, its debt protection metrics were supported by improvement in operating profits. Adjusted debt/adjusted OPBITDA and adjusted total outside liabilities (TOL)/net worth were at 2.9 times and 2.2 times, respectively, with adjusted interest coverage of 4.8 times in FY2020.

ICRA expects TJL's revenues to be negatively impacted by Covid-19 pandemic-related factors in FY2021. In line with industry, the company's revenues plunged ~74% YoY as its stores were closed during the lockdown in most parts of Q1 FY2021, which included the critical Akshaya Tritiya season. While the company has resumed operations in most of its stores, its sale volumes are expected to fall at a sharper rate (in line with industry) because of the lockdown measures in its key markets and reduction in discretionary spending by customers in the wake of elevated gold prices.

The ratings also consider the high geographical- and product-concentration risks with TJL deriving its entire revenue from the Tamil Nadu market and over 90% of revenues from gold jewellery in FY2020. Moreover, the rating strengths are offset to an extent by the working capital-intensive nature of business, vulnerability of TJL's earnings to volatility in gold prices, moderate scale of operations and profit margins due to limited value addition, and fragmented industry structure resulting in pricing pressure for retailers. The ratings also factor in the inherent regulatory risks in the gems and jewellery industry (which impacted the retailers' performance in the past) and a cautious lending environment constraining the funding to the sector.

The Stable outlook on the medium- 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. The company's performance would remain sensitive to the duration and breadth of Covid-19 pandemic before an eventual containment. These near-term challenges notwithstanding, the company's ability to maintain its credit profile will be monitored.

Key rating drivers and their description

Credit strengths

Established brand name in southern Tamil Nadu: TJL has 47 stores (as of August 2020) 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 marked by increase in earnings and improvement in coverage indicators: TJL's financial profile is strong, marked by a healthy 26.7% and 48.2% increase in OPBDITA and cash profits, respectively, in the last three years (CAGR as of FY2020). As against industry de-growth of ~18% YoY in gold volumes in FY2020, the company posted a posted a muted volume growth on the back of steady rural demand, increased concentration in tier-II/III cities, focused sales initiatives, and better traction in jewellery saving schemes. TJL's revenues grew by 17.2% YoY in FY2020 on the back of higher gold price realisations and strong growth in sales of silver jewellery and diamond ornaments, respectively (albeit on a lower base). The operating margins expanded by 90 bps YoY in FY2020 supported by higher sales contribution from margin-accretive gold and diamond jewellery ornaments, better stock rotation and higher gold price realisations. This included hedging loss of ~Rs. 18.2 crore with TJL's increased usage of gold metal loans (GML) and hedging done on spot purchase of jewellery amid rising gold prices. The company's debt levels as of March 2020 increased by ~12% YoY because of build-up of stock ahead of Akshaya Tritiya, but its debt protection metrics were supported by improvement in operating profits. Adjusted debt/adjusted OPBITDA and adjusted TOL/net worth was at 2.9 times and 2.2 times, respectively, with adjusted interest coverage of 4.8 times in FY2020. TJL's RoCE was comfortable at 19.4% in FY2020 (PY: 15.0%), aided by improved operating profits and asset-light store expansion in the recent years. The indicators are, however, likely to moderate in FY2021 due to lower operating profits envisaged amid decreasing revenues.

Favourable long-term demand for organised jewellery retailers: While the elevated gold prices and Covid-19 effect on discretionary spend shall impact the near-term gold jewellery demand, the medium-to-long term outlook 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—including mandatory hallmarking from June 2021—and higher compliance costs have resulted in a churn in the unorganised segment, benefiting the organised players. TJL is well positioned to tap the incremental demand, given its reputed brand name and wide presence.

Credit challenges

Pandemic induced lockdown and subdued demand sentiments to impact revenues in FY2021: All of the company's retail outlets were shut from March 23, 2020 till May 2020, owing to the lockdown imposed due to the pandemic. This resulted in minimal sales during the period, which also included the Akshaya Tritiya season, in line with other players in the industry. Consequently, the company posted revenues of Rs. 125.9 crore in Q1 FY2021, down ~74% YoY and had operating losses of Rs. 1.6 crore in Q1 FY2021, due to negative operating leverage and hedging losses of Rs. 13.5 crore. Furthermore, the company's major revenue generating market of Madurai (~18% of the revenues in FY2020) was shut down from June 24, 2020 to July 15, 2020 due to intense lockdown in the region imposed by the state government.

Amid the low discretionary spending by the consumers due to the sharp increase in gold prices (which has appreciated by over 35% since March 2020), weak macroeconomic sentiments, loss of business in the first 60 days of complete lockdown and subsequent localised lockdowns in some of its key markets and rather uncertain economic situation due to the still evolving pandemic, the company is likely to witness sharp contraction in revenues in FY2021. Nevertheless, rising share of old gold purchases, inventory gains due to sharp appreciation in gold prices, better product mix and other cost-saving initiatives including reduction in employee costs could support the operating profits. ICRA will continue to monitor for any larger-than-expected contraction in demand stemming from sustained lockdowns.

Working capital-intensive nature of business and stiff competition: The 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. Gold jewellery retail business is also highly competitive, given the presence of many organised and unorganised players, leading to limited pricing flexibility among players. With the addition of 15 new stores in the last three years and the rising share of diamond sales, TJL's stocking levels have gone up to 132 days as on March 31, 2020 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 2020, TJL has 47 stores across tier-II and tier-III cities in southern Tamil Nadu, largely catering to rural demand. With the 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 act 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 sales of the same in FY2020, exposing it to high product-concentration risk and limiting the scope for margin expansion. That said, the revenue contribution from silver and diamond jewellery gradually grew to 9.5% in FY2020 from 5.5% in FY2015, owing to the increasing focus of the company on diversifying its revenue streams. Additionally, with 12 small stores 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.

Exposure to regulatory risks: Increased regulatory intervention in the jewellery industry in the recent years has impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, mandatory disclosure requirement for purchases above threshold limits, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty, demonetization, etc. have affected demand and supply in the past. Increasing supervision and a cautious lending environment further restricted fund flows to the sector, hampering the store expansion plans and liquidity profile of retailers.

Liquidity position: Adequate

The company's liquidity position is **adequate** with positive fund flow from operations in FY2020 and average working capital utilisation of ~70.1% of the sanctioned limits for the 12-month period that ended in July 2020. The company has undrawn working capital limits of Rs. 53.5 crore and unutilised fixed deposit (FD) lines of ~Rs. 25 crore as on March 31, 2020, which lends support to its liquidity profile. TJL has FD repayments of Rs. 9.8 crore in FY2021, which is expected to 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. Specific credit metrics that could lead to an upgrade of ratings include a) adjusted interest coverage of more than 4.0 times and b) TOL/TNW less than 1.5x on a sustained basis.

Negative triggers: Negative pressure on rating will emanate from sharp deterioration in earnings and/or stretch in working capital position impacting liquidity profile. Specific credit metrics that could lead to a downgrade of ratings include (a) TOL / TNW exceeding 2.0x and (b) adjusted interest coverage of less than 2.8 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 47 jewellery outlets across Tamil Nadu as on August 31, 2020.

Key financial indicators

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	1,443.6	1,692.2
PAT (Rs. crore)	30.3	45.7
OPBDIT/OI (%)	4.9%	5.8%
RoCE (%)	15.0%	19.4%
Total Outside Liabilities/TNW (times)	2.4	2.2
Total Debt/OPBDIT (times)	3.4	2.9
Interest Coverage (times)	3.5	4.7
DSCR (times)	1.0	1.8

Source: Company data;

PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs Crore)	Date & Rating 24th September 2020	Date & Rating 4th September 2020	Date & Rating in FY2020 9th September 2019	Date & Rating in FY2019 21st September 2018	Date & Rating in FY2018 21st December, 2017	8th September, 2017
1	Cash Credit	Long Term	260.00	102.80	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	[ICRA]BBB- (positive)
2	LC / Gold Metal Loan (sub-limit)	Short Term	260.00	103.80	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3
3	Unallocated	Long term / short term	40.00	-	ICRA]BBB+ (stable)/ [ICRA]A2	ICRA]BBB+ (stable)/ [ICRA]A2	ICRA]BBB+ (stable)/ [ICRA]A2	ICRA]BBB+ (stable)/ [ICRA]A2	[ICRA]BBB (stable)/ [ICRA]A3+	[ICRA]BBB- (positive)/ [ICRA]A3
4	Fixed Deposits	Medium Term	77.00	52.16	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)	MA- (stable)

Amount in Rs. crore

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	NA	9.00-11.75%	-	260.00	[ICRA]BBB+ (Stable); outstanding
NA	LC/Gold Metal Loan (sub-limit)	NA	1.95-3.50%	-	(260.00)	[ICRA]A2; outstanding
NA	Unallocated	NA	NA	-	40.00	[ICRA]BBB+ (Stable) / [ICRA]A2; outstanding
NA	Fixed Deposits	NA	9.50-10.50%	-	77.00	MA- (Stable); outstanding on existing limits and assigned on enhanced limits

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About ICRA Limited:

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