

May 26, 2022

Anand Jewels (Indore) Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-fund based	21.0	21.0	[ICRA]BBB- (Positive) reaffirmed; outlook revised from Stable
Long/short term-fund based	151.0	151.0	[ICRA]BBB-(Positive)/[ICRA]A3 reaffirmed; outlook revised from Stable
Fund based-Term loans	15.10	15.10	[ICRA]BBB-(Positive) reaffirmed; outlook revised from Stable
Total	187.10	187.10	

*Instrument details are provided in Annexure-1

Rationale

The revised rating outlook considers a likely improvement in the financial performance of Anand Jewels (Indore) Private Limited (AJIPL) in FY2023, driven by healthy revenue visibility as a new store in Raipur will commence operations in June 2022, which is expected to result in higher profits and cash accruals. In FY2022, the company achieved a healthy revenue growth of ~75% on the back of improved sales volumes from two operating stores. The operating profitability improved to ~5.2% in FY2022 from ~4.6% in FY2021, leading to an increase in cash accruals. The interest coverage (OPBDITA/Interest and finance charges) also improved to 3.65 times in FY2022 compared to 2.33 times in FY2021. While the interest coverage is expected to remain comfortable in FY2023, the total debt to OPBDITA (TD/OPBDITA) is expected to remain elevated owing to higher inventory requirement for the new showroom. The liquidity of the company also remained modest, as reflected by high utilisation of working capital limits in the past one year. The utilisation is likely to remain elevated in the near term, notwithstanding the recent enhancement in limits. AJIPL's ability to achieve steady sales growth, faster stock rotation and improvement in debt coverage indicators as well as liquidity position will remain key rating factors.

ICRA's ratings continue to favourably factor in AJIPL's established position as a regional player in Indore and Bhopal, Madhya Pradesh, as evident from its healthy revenue growth in the past few years. The ratings also positively factor in the company's good brand presence in the vicinity. The experience of the promoters for more than two decades in the retail jewellery industry is also a positive. Further, the ratings factor in the company's hedging policy, which provides a cushion against the price variation risk. The ratings, however, remain constrained by the limited track record of the company, relatively modest scale and geographical concentration risk as it derives revenues from two stores in Indore and Bhopal at present. This apart, AJIPL remains exposed to regulatory risks arising from changes in Government policies. It faces intense competition in the industry from organised and unorganised players. The ratings are further constrained by the high inventory levels maintained by the company, which led to working capital intensive nature of operations.

Key rating drivers and their description

Credit strengths

Improvement in performance in FY2022 – The company has witnessed a consistent growth in revenues since its inception. AJIPL reported an operating income of Rs. 722 crore in FY2022 and is expected to report a healthy growth in the current fiscal as a new store in Raipur is set to be opened in June 2022. The interest coverage (OPBDITA/Interest and finance charges) also improved to 3.65 times in FY2022 compared to 2.33 times in FY2021. While the interest coverage is expected to remain comfortable in FY2023, the total debt to OPBDITA (TD/OPBDITA) is expected to remain elevated owing to higher inventory requirement for the new showroom.

Extensive experience of promoters – The promoters have vast experience in the jewellery retail business in Indore. AJIPL's Chairman, Mr. Harbhajan Anand, has more than five decades of experience in the retail jewellery business, while Mr. Gaurav Anand, Director, has more than two decades of experience.

Increasing brand presence with additional store launches – The company has been promoting its products through various verticals and hence has a good brand presence in Indore. Its top line also grew close to 75% in FY2022. The revenue increase can be primarily attributed to the ramp-up of the Bhopal store.

Credit challenges

High geographical concentration risk – The company is exposed to high geographical concentration risk as it has only two stores in Indore and Bhopal. Its brand presence remains limited to Madhya Pradesh. The new store in Raipur is expected to be opened in the current fiscal.

High inventory levels to be maintained – The working capital requirements of the business are high owing to the need of maintaining high inventory levels. Given this, the debt levels have been high for the company, leading to moderate debt coverage indicators. The coverage indicators, notwithstanding some improvement, remain modest with an interest coverage of 3.65 times in FY2022.

Exposure to global price volatility, Government policies and weak market sentiment – The dependence of gold price on the global market continues to be critical, given the price volatility. Coupled with adverse Government policies and weak consumer demand across the industries, this might impact the overall demand of gold.

Liquidity position: Adequate

The liquidity position is **adequate** as the working capital limits were utilised to the extent of 89% in the last two fiscals. Moreover, the company had maintained low cash and bank balances of around Rs. 0.78 crore as of March 2022.

Rating sensitivities

Positive factors – A sustained improvement in revenues and profitability, resulting in an improvement in debt coverage metrics and liquidity position, may trigger ratings upgrade. In terms of specific credit metrics, interest coverage above 3.25 times on a sustained basis could lead to a positive rating action

Negative factors – The outlook might be revised to Stable if there is a significant decline in the scale and profitability of the company. A decline in the credit risk metrics, resulting in a deterioration in the debt coverage indicators and liquidity profile, may also trigger a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Gold Jewellery Retail Industry
Parent/Group Support	None
Consolidation/Standalone	Standalone

About the company

AJIPL was established in 2008 by Mr. Gaurav Anand. It manufactures and sells gold ornaments, jewellery, precious stones and diamonds under Anand Jewels on MG Road, Indore. The company's Chairman, Mr. Harbhajan Anand, has over 50 years of experience and Director Mr. Gaurav Anand has 20 years of experience in the retail jewellery sector. The Anand family or Anand

Corporation is a well-known business group in Madhya Pradesh, with major businesses in retail (automobile and jewellery), hospitality and real estate. At present, AJIPL has two showrooms in Madhya Pradesh. The flagship and the biggest of the two is located on MG Road, a prime location in Indore, while the second store is located at DB Mall, Bhopal.

Key financial indicators

AJIPL	FY2021(A)	FY2022(A)
Operating Income (Rs. crore)	412.45	722.20
PAT (Rs. crore)	7.61	19.75
OPBDIT/OI (%)	4.64%	5.24%
PAT/OI (%)	1.85%	2.74%
Total Outside Liabilities/Tangible Net Worth (times)	2.75	2.80
Total Debt/OPBDIT (times)	6.96	4.55
Interest Coverage (times)	2.33	3.65

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022		Date & Rating in FY2021	
				May 26, 2022		August 12, 2021		October 12, 2020	May 19, 2020
1	Long term-fund based	Long term	21.0	-	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)		[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2	Long/short term-fund based	Long term/Short term	151.0	-	[ICRA]BBB- (Positive)/[ICRA] A3	[ICRA]BBB- (Stable)/[ICRA] A3		[ICRA]BBB- (Stable)/[ICRA] A3	-
3	Fund based-Term loans	Long term	15.10	14.86	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-	-	-
4	Non fund based-Bank guarantee	Long term/Short term	-	-	-	-	-	[ICRA]BBB- (Negative)/[ICRA] A3	[ICRA]BBB- (Stable)/[ICRA] A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-fund based	Simple
Long/short term-fund based	Simple
Fund based-Term loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Long term-fund based	-	-	-	21.0	[ICRA]BBB-(Positive)
NA	Long/short term-fund based	-	-	-	151.0	[ICRA]BBB- (Positive)/[ICRA]A3
NA	Fund based-Term loans	Jan 2021	-	Dec 2025	15.10	[ICRA]BBB-(Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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