

January 05, 2023

## Bhima Jewellery Nagercoil: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Cash Credit	24.50	24.50	[ICRA]A-(Stable); Reaffirmed
<b>Total</b>	<b>24.50</b>	<b>24.50</b>	

\*Instrument details are provided in Annexure-I

### Rationale

For arriving at the rating, ICRA has taken a consolidated view of Bhima Jewellery Nagercoil (BJN) and other jewellery entities operating in the Group (collectively referred to as the Bhima Trivandrum Group), given the common management and strong operational and financial linkages among the entities. Details of various entities operating in the Bhima Trivandrum Group, which have been consolidated, have been given in [Annexure II](#).

The rating reaffirmation continues to reflect the established market position of the Bhima Trivandrum Group in the jewellery retail markets of Kerala and Tamil Nadu. The rating also considers the promoters' extensive experience in the industry, a comfortable financial profile characterised by a conservative capital structure and adequate coverage metrics. Despite a drop in margin in FY2022 due to lower realisation, the coverage metrics of the entity have remained comfortable in FY2022 with an interest cover of 7.1 times (due to lower interest cost) and DSCR of 4.9 times. In 8M FY2023, the Group reported a healthy growth of ~35% YoY in revenues and it is expected to report ~18-20% revenue growth for the whole year. Going forward, the company's operating margins are expected to remain range bound on account of lower share of studded jewellery and increased competition. Its operational and financial performances are likely to remain stable in the coming quarters, driven by its improving business diversification and favourable demand conditions. The Group recorded a consistent growth in revenues and earnings on the back of the strong Bhima brand, with an established market position, resulting in a better-than-industry average inventory turnover.

The Group's capital structure has remained conservative, with limited dependence on external debt on the back of a steady growth in earnings and no major expansion undertaken in the recent fiscals. Its key capitalisation ratios including the gearing and total outside liabilities to the tangible net worth (TOL/TNW) are likely to remain strong at around 0.4 times and 0.6 times, respectively in FY2023.

However, the rating remains constrained due to the Group's moderate operating profitability owing to low contribution from studded jewellery, high working capital requirements in the business, geographical concentration risks and vulnerability of its earnings to volatility in gold prices. The ratings also factor in the risks inherent in the partnership firms including the risk of capital withdrawal by the partners. The other concern areas include financial support extended by the Group in the form of loans and advances to some other companies owned by the promoter family, intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers' performance in the past. ICRA understands that exposure towards other promoter-owned companies is expected to remain at the current levels, and the Group is in the process of converting the partnership firm into a private limited company.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group's operational and financial performances will continue to benefit from the favourable demand conditions, its established market position, increasing focus on expansion in new markets and studded jewellery along with comfortable capitalisation levels.

## Key rating drivers and their description

### Credit strengths

**Established market position** – The larger Bhima Group enjoys a strong retail presence and has long operational track record in the jewellery market of South India for more than nine decades, with the Bhima Trivandrum Group operating in specific large micro markets within Kerala and Tamil Nadu. Extensive experience of the promoters in the gold jewellery industry coupled with the Group's focus on providing ornament designs that suit specific tastes and preferences of the customers enabled the Bhima Group to establish its strong brand and capture a loyal customer base. The same drove its revenue growth through repeat purchases across all key markets. Its strong brand equity is illustrated by a steady revenue growth across the states despite entry of many large regional chains in the recent years.

**Comfortable financial profile** – The Group's financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. The coverage metrics remained strong in FY2022 owing to healthy earnings, characterised by an interest cover of ~7 times in the said fiscal despite high working capital requirements in the business (funded through earnings, working capital debt and advances from customers through saving schemes). The coverage indicators are likely to remain comfortable despite the proposed store expansion plans owing to the expected steady earnings from operations over the medium term. Further, the financial profile is supported by its adequate liquidity position and relatively lower dependence on external debt, reflected in the total outside liabilities to inventory ratio of 50%.

**Growth prospects in jewellery segment underpinned by large industry size and fragmented market share** – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency, and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting organised players like the Bhima Group over the years. Further, the Group's sizeable presence across the major markets in Kerala and Tamil Nadu, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support the organised trade and provide better opportunities in the near term.

### Credit challenges

**Earnings exposed to geographical concentration risks** – The Group faces moderate geographical concentration risk as its main areas of operations are limited to Kerala and a few markets in Tamil Nadu, with the top three markets contributing around ~60% to revenues in FY2022. The Group's extensive track record, a strong customer base and market share enjoyed in its key markets provide some comfort. The Group has recently opened a new showroom in Andhra Pradesh, which would reduce dependence on the existing stores in the near-to-medium term. Expansion plans of the Group in Andhra Pradesh and Tamil Nadu are expected to diversify the Group's presence across the southern states, mitigating the regional concentration risk to an extent.

**Moderate operating profitability** – The Group's operating margins are expected to remain moderate, constrained by low contribution from the studded jewellery and limited margins / pricing flexibility owing to intense competition in key markets. Further, its earnings remain exposed to volatile gold prices, as seen in the past. The risk is mitigated to an extent by the hedging of 30% of stock levels through commodity exchanges.

**Exposure to regulatory risks as well as risks inherent in partnership firms** – Although certain regulatory measures have aided in the shift towards organised trade like the recent hallmarking initiatives, some adverse regulatory developments have impacted the domestic gold jewellery industry in the past. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a certain limit, and imposition of excise duty are some of the regulatory developments that have impacted the industry over the last decade. The Group remains exposed to the risks arising out of any such future regulatory actions that may impact its business profile. Moreover, given its constitution as a partnership firm, the Group is exposed to discrete risks including the possibility of capital withdrawal by the partners. Any significant capital withdrawal by the partners or incremental funding support to other companies managed by the promoters could adversely impact its credit profile and remain a key monitorable.

## Liquidity position: Adequate

The Group's liquidity position is adequate and is expected to remain the same, supported by growth in earnings from operations, adequate unutilised lines of credit and free cash reserves enjoyed by the company. The Group has cash buffer including unutilised lines and its free cash reserves stood at around ~Rs. 90 crore as of September 30, 2022. In October 2022, the Group has got sanction of additional working capital limits of Rs. 120 crore in the new partnership firm, Bhima Jewellery Visakhapatnam. The average utilisation of its working capital facilities stood at around 61% over the last 12 months ended in September 2022. Further, with low annual debt repayments of Rs. 3.9 crore and no major proposed capital expenditure in FY2023, the Group is expected to generate cash accruals of more than Rs. 100 crore, which along with the cash buffer, lends comfort to the Group's liquidity profile.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the Group's rating if there is a sustained healthy growth in revenues and improvement in profitability on the back of better business diversification through store expansion and higher share of studded jewellery, while maintaining its comfortable debt protection metrics and liquidity position.

**Negative factors** – The Group's rating could be downgraded if there is a sustained pressure on the operating performance or a deterioration in the working capital intensity, adversely impacting its coverage metrics and liquidity position. Further, any incremental large cash outflow towards other companies in the Group would also exert pressure on the ratings. Specific credit metrics that could lead to a rating downgrade include the interest coverage reducing to less than 5.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Gold Jewellery – Retail Industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial profile of the Bhima Trivandrum Group, with the details of entities considered for consolidation given in Annexure-2.

## About the company

Bhima Jewellery Nagercoil is a part of the Bhima Trivandrum Group and was incorporated in October 2003 and is involved in retail sale of gold, silver and diamond-studded jewellery. The Bhima Group Trivandrum, operating since 1990, is promoted by Dr. Govindan of the Bhima Bhattar family. The Group has 12 showrooms, six in Kerala, five in Tamil Nadu and one in Andhra Pradesh. It operates under eight partnership entities – Bhima Gold and Diamonds, Adoor, Bhima Jewellers and Diamonds, Attingal, Bhima Jewellery Madurai, Bhima Jewellery Salem, Bhima Jewellery Nagercoil, Bhima Jewellery Trivandrum, Bhima Jewellery Tirunelveli and Bhima Jewellery Visakhapatnam. Its 12 showrooms are spread across a total 1,16,800 square feet. The Group's products include ~95% gold-based jewellery like chains, bangles, antique jewellery, necklaces etc and the balance comprises diamond, platinum, silver, precious stones among others. The Group also has six windmills with a capacity of 600 KW each.

## Key financial indicators (audited)

Bhima group (Consolidated)	FY2021	FY2022
Operating income	3,670.3	3,959.9
PAT	184.8	85.0
OPBDIT/OI	7.73%	4.18%
PAT/OI	5.04%	2.15%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.5	1.6
Interest coverage (times)	17.9	7.1

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*consolidated financials includes financials of Bhima Gold and Diamonds, Adoor, Bhima Jewellers and Diamonds, Attingal, Bhima Jewellery Madurai, Bhima Jewellery Salem, Bhima Jewellery Nagercoil, Bhima Jewellery Trivandrum, Bhima Jewellery Tirunelveli and Bhima Jewellery Visakhapatnam

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years		
		Amount rated	Amount outstanding as of Mar 31, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
		(Rs. crore)	(Rs. crore)	January 5, 2023	October 12, 2021	-	-
1 Fund based/ CC	Long Term	24.5	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based/ Cash Credit	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 are available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	24.50	[ICRA]A-(Stable)

Source: BJN

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

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bhima Gold and Diamonds, Adoor	-	Full Consolidation
Bhima Jewellery and Diamonds, Attingal	-	Full Consolidation
Bhima Jewellery Madurai	-	Full Consolidation
Bhima Jewellery Salem	-	Full Consolidation
Bhima Jewellery Nagercoil	-	Full Consolidation
Bhima Jewellery Trivandrum	-	Full Consolidation
Bhima Jewellery Tirunelveli	-	Full Consolidation
Bhima Jewellery Visakhapatnam	-	Full Consolidation

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