

March 23, 2023

## Joyalukkas India Limited: Ratings continue on watch with negative implications

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposits	600.00	600.00	[ICRA]A+ rating watch with negative implication; continues on rating watch
Long-term fund based – Term Loans	87.13	37.09	[ICRA]A+ rating watch with negative implication; continues on rating watch
Long-term/short-term fund based limits	1,358.00	1,337.40	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications; continues on rating watch
Short-term – Interchangeable limits	(1,336.00)	(1,063.00)	[ICRA]A1 rating watch with negative implications; continues on rating watch
Long-term/short-term – Unallocated Limits	66.87	137.51	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications; continues on rating watch
<b>Total</b>	<b>2,112.00</b>	<b>2,112.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The continuation of the ratings under watch with negative implications reflects the uncertainty around the ongoing investigations on the promoters of Joyalukkas India Limited (JIL) by the Enforcement Directorate (ED) for violations of the Foreign Exchange Management Act (FEMA), 1999, which could have an adverse impact on JIL's operating or financial profiles including reputational damage and/or regulatory restrictions. The ED, as per their press release dated February 24, 2023, has attached assets worth Rs. 305.8 crore of Mr. Joy Alukkas Varghese under Section 37A of FEMA, 1999 in cases pertaining to huge transfers of cash to Dubai from India through Hawala Channels and subsequently invested in Joy Alukkas Jewellery LLC, Dubai. While ICRA notes that ED's press release contains no adverse observations regarding the business dealings of JIL, ICRA will continue to monitor the developments in this regard including any further observations by the ED and the impact on JIL's business. The management and bankers of the company have confirmed that JIL does not have any relation (managerial, operational or financial) with Joy Alukkas Jewellery LLC, Dubai, except a common promoter.

The ratings continue to factor in the healthy operating and financial performance of the company in 9M FY2023, with operating income of ~Rs. 10,631 crore (provisional) and operating profit margin of 10.9%, supported by its established market position in the domestic branded jewellery sector, particularly in south India. The company opened 3 new stores in 9M FY2023, taking the total retail presence to 85 stores as on December 31, 2022 with 70 stores across south India. The company continues to maintain a comfortable financial profile with gearing of 0.8 times as on December 31, 2022 and total debt/OPBDITA and interest cover of 1.5 times and 6.5 times, respectively, in 9M FY2023.

The ratings, however, continue to remain constrained by the high working capital intensity of operations, increasing competition from other organised and regional jewellery retailers and lack of hedging practices, which exposes JIL's earnings to volatile gold prices. The ratings also consider the regulatory risks, including unanticipated changes in the regulatory landscape and investigations by regulatory agencies, which had impacted the company's performance in the past.

## Key rating drivers and their description

### Credit strengths

**Established market position** – JIL is among the largest organised jewellery retailers in India with an established presence in the south India market. Its brand 'Joyalukkas' enjoys a healthy market position with high brand loyalty among customers. The company operated through a network of 85 retail stores as on December 31, 2022 and commands a strong market share in combined Andhra Pradesh, Tamil Nadu, Karnataka and Kerala, which cumulatively accounted for ~90% of JIL's revenue in 9M FY2023. JIL opened 3 new stores in 9M FY2023 and plans to open 2 more stores in March 2023 and ~10 new stores in FY2024. While its business remains concentrated in south India, JIL operates 15 stores in non-south markets, mainly in Maharashtra and Delhi. Going forward, JIL's expanding retail presence coupled with its established brand image and extensive experience of its promoters is expected to continue to drive footfalls and revenue growth over the medium term.

**Improving financial profile aided by healthy operating performance** – JIL's operating income grew ~47% YoY to ~Rs. 10,600 crore in 9M FY2023 driven by demand recovery in Q1 FY2023, on a low base of Q1 FY2022 which was impacted by pandemic-induced restrictions, and continued momentum in wedding and festive demand. The revenue growth was also supported by ~6% YoY increase in average gold realisations during the period. JIL's operating margin in 9M FY2023 sustained above 10%, despite normalisation of inventory gains recorded in the previous years, owing to largely to economies of scale and cost rationalisation measures. The healthy operating performance translated into improving financial profile with interest cover, TOL/TNW and Total Debt/OPBDITA improving to 6.5 times, 1.2 times and 1.5 times, respectively, in 9M FY2023 from 5.9 times, 1.3 times and 0.9 times, respectively, in FY2022. Going forward, key credit metrics are likely to record steady improvement over the medium term supported by steady operating performance.

**Favourable growth prospects for organised jewellery retailers** – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation over the recent year have accelerated the shift in the market share from unorganised players. The industry tailwind is expected to benefit the organised jewellery retailers like Joyalukkas India Limited over the medium term, supported by its strong brand equity and increasing retail presence.

### Credit challenges

**High working capital intensity of operations and intense competition** – Jewellery retailing business is inherently working capital intensive due to high inventory holding requirement given the need to display varied designs of jewellery to customers. JIL's inventory requirements are likely to increase further owing to the aggressive store expansion plans over the medium term. The company's NWC/OI is expected to remain in the range of 30-35% over the medium term with its ability to improve stock rotation (2.4 times in FY2022) being a critical metric to improve its working capital intensity. The jewellery retailing industry is highly fragmented and competitive with presence of many organised and unorganised players translating into limited pricing flexibility among the players.

**Exposure to regulatory risk and volatility in gold prices** – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape which could have an adverse impact on JIL's business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit and imposition of excise duty and GST and demonetisation are some of the regulations that have impacted demand and supply in the past. JIL remains exposed to changes in regulations that may impact its business profile. Moreover, JIL's revenue and profitability remain exposed to volatility in gold prices in absence of gold metal loans and a defined inventory hedging policy. However, this risk is mitigated to an extent by the extensive experience of promoters and daily purchases of gold to manage inventory costs.

### Liquidity position: Adequate

JIL's liquidity position remains adequate, supported by steady earnings from operations and adequate buffer from unutilised working capital limits with commensurate drawing power. JIL had free cash worth Rs. 172 crore and unutilized limits worth ~Rs. 200 crore as on December 31, 2022 (provisional). ICRA expects the company to generate cash flow from operations worth

~Rs. 300 crore in FY2023 and ~Rs. 600 crore in FY2024. Against this, JIL has debt repayment obligations in range of Rs. 45-65 crore p.a. (including lease liabilities) and capex requirements of ~Rs. 100-150 crore p.a. (including addition to leases). The average utilisation of working capital limits has been ~90% in the 12-month period ending December 31, 2022.

## Rating sensitivities

**Positive factors** – Given that the ratings are currently under watch with negative implications, an upgrade is unlikely in the near term. The rating watch could be resolved if the outcome of the ongoing investigations by the Enforcement Directorate does not have a material impact on the company’s business prospects or credit metrics.

**Negative factors** – Pressure on JIL’s ratings could arise in case of any regulatory action having an adverse impact on the operating and/or financial performance of the company. Sustained pressure on the operating performance or deterioration in the working capital cycle, adversely impacting the coverage metrics and liquidity position could also result in a ratings downgrade. Specific credit metrics that could result in a ratings downgrade include interest cover below 5.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Gems &amp; Jewellery (Retail)</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Joyalukkas India Limited (JIL), promoted by Mr. Alukkas Varghese Joy and family, is among the largest organised jewellery retailers in India with a presence for more than three decades. The company operates 85 retail stores as on December 31, 2022, of which 70 were across south Indian states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala. The company derives ~90% of its revenue from south India and gold jewellery accounts for ~80% of its operating income.

## Key financial indicators (audited)

	FY2021 (audited)	FY2022 (audited)	9M FY2023 (provisional)
Operating income (Rs. crore)	8,091	10,309	10,631
PAT (Rs. crore)	472	700	667
OPBDIT/OI (%)	12.0%	12.0%	10.9%
PAT/OI (%)	5.8%	6.8%	6.3%
Total outside liabilities/Tangible net worth (times)	1.8	1.3	1.2
Total debt/OPBDIT (times)	2.1	1.8	1.5
Interest coverage (times)	4.7	5.9	6.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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

## Any other information: None

### Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Current Rating (FY2023)		Chronology of Rating History for the past 3 years					
				Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		
				Mar 23, 2023	Mar 03, 2023	Jun 03, 2022	Mar 28, 2022	Nov 18, 2021	Aug 31, 2020	Oct 10, 2019	
1	<b>Fixed Deposits</b>	Long-term	600.00	-	[ICRA]A+ rating watch with negative implications	[ICRA]A+ rating watch with negative implications	[ICRA]A+ (Stable)	[ICRA]MA+ (Stable)	-	-	-
2	<b>Term Loans</b>	Long-term	37.09	37.09	[ICRA]A+ rating watch with negative implications	[ICRA]A+ rating watch with negative implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	<b>Fund based working capital limits</b>	Long-term/short-term	1,337.40	-	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)
4	<b>Fund based/ non-fund based (sub limits)</b>	Short-term	(1,063.00)	-	[ICRA]A1 rating watch with negative implications	[ICRA]A1 rating watch with negative implications	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	<b>Unallocated Limits</b>	Long-term/short-term	137.51	-	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-
6	<b>Non-Convertible Debentures (Proposed)</b>	Long-term	-	-	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposits	Very Simple
Long-term fund based – Term Loans	Simple
Long-term/short-term fund based limits	Simple
Short-term – Interchangeable limits	Very Simple
Long-term/short-term – Unallocated Limits	Not applicable

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fixed Deposits	-	-	-	600.00	[ICRA]A+ rating watch with negative implications
NA	Term Loan – I	FY2021	-	FY2024	9.98	[ICRA]A+ rating watch with negative implications
NA	Term Loan – II	FY2021	-	FY2025	7.81	[ICRA]A+ rating watch with negative implications
NA	Term Loan – III	FY2021	-	FY2027	19.30	[ICRA]A+ rating watch with negative implications
NA	Fund based working capital facilities	-	-	-	1,337.40	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications
NA	Fund based/non-fund based (sub limits)	-	-	-	(1,063.00)	[ICRA]A1 rating watch with negative implications
NA	Unallocated Limits	-	-	-	137.51	[ICRA]A+ rating watch with negative implications/ [ICRA]A1 rating watch with negative implications

Source: Company

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

**Annexure II: List of entities considered for consolidated analysis – Not applicable**

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