

August 24, 2023

## Tribhovandas Bhimji Zaveri Limited: [ICRA]A- (Stable); assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A-(Stable); assigned
Total	-	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has taken a consolidated view on Tribhovandas Bhimji Zaveri Limited (TBZ) and its subsidiary while assigning the credit rating, given the common management and significant operational and financial linkages between them.

The assigned rating reflects the promoter's extensive experience in the industry, which has enabled TBZ to establish a strong brand name in the jewellery retail markets, particularly in Maharashtra and Gujarat. The rating also considers the company's moderate financial profile, characterised by a conservative capital structure. The capital structure of the company has improved over the last few years due to healthy accretion to reserves and reduced dependence on external debt, resulting in a gearing of 1.0 times and TOL/TNW of 1.6 times in FY2023. The major portion of the debt in the balance sheet comprises working capital borrowings and the company does not have any long-term debt as on date. These metrics are further likely to improve in the coming quarters, driven by favourable demand conditions and growth in revenues and earnings. TBZ's operating performance has witnessed a steady improvement in the recent fiscals. It has recorded a consistent growth in revenues and earnings on the back of an established market position. The company has reported a YoY growth of ~30% in its revenues and its PAT has almost doubled in FY2023 to Rs. 40.2 crore from Rs. 20.2 crore in FY2022. In Q1 of FY2024, though there was a marginal fall in the operating income, the company reported better operating margins at 5.68% against 3.17% in Q1 of FY2023 due to cost optimisation and higher share of diamonds in the sales mix. These resulted in a PAT margin of 2% for the quarter against 0.4% in the corresponding quarter of the last year. The rating also considers the favourable long-term growth prospects for organised jewellers with an accelerated shift in the market share from unorganised jewellers over the medium term, which is likely to benefit TBZ.

The rating is, however, constrained by the high working capital requirements in the business as the company needs to maintain adequate varieties of inventory at all its stores. Further, a higher share of diamond inventory has resulted in lower inventory turnover. This has resulted in modest coverage indicators, characterised by subdued interest coverage ratio of around 2.4 times in FY2023. Besides, it remains exposed to geographical concentration risks as ~68% of the revenues are derived from Maharashtra and Gujarat. The rating also remains constrained on account of intense competition in a fragmented industry structure and regulatory risks, which have impacted the retailers' performance in the past.

The Stable outlook on the long-term rating reflects ICRA's expectations that TBZ's operational and financial performances will continue to benefit from the favourable demand conditions, its established market position and high share of studded jewellery in the revenue mix along with comfortable capitalisation levels. Further, the debt protection metrics are likely to strengthen as the operating margins of the company improve.

## Key rating drivers and their description

### Credit strengths

**Established market position with a strong brand name of TBZ and long experience of promoters** – TBZ enjoys a strong retail presence and has a long track record in the jewellery market for more than 150 years, mainly in Maharashtra and Gujarat. Vast experience of the promoters in the gold jewellery industry and the company's focus on providing ornament designs that suit specific tastes and preferences of the customers enabled TBZ to establish its strong brand and have a loyal customer base. The same drove its revenue growth through repeat purchases across all key markets. Over the years, the company has expanded its presence to 12 states across the country, however, the major portion of the revenue is still being generated from Maharashtra and Gujarat only.

**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 TBZ over the years. Further, its sizeable presence across major markets in Tamil Nadu and Telangana, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, have supported the organised trade and provide better opportunities going forward.

### Credit challenges

**High working capital intensity has resulted in modest debt coverage indicators** – Jewellery retailing business is inherently working capital intensive in nature. With increased store presence, the working capital requirements are generally high. The company is required to maintain adequate varieties of inventory at the stores to increase customer footfall. Though the inventory days of the company have moderated to 203 in FY2023 from 263 in FY2020, it is still on the higher side. One of the reasons for such high inventory days is the high share of studded jewellery (30-35%) in the inventory mix, which is slow moving compared to pure gold. This has resulted in modest coverage indicators, reflected by an interest coverage ratio of 2.4 times in FY2023. These metrics are expected to improve in the coming years as the operating margins of the company increase and the company gets benefitted from the operating leverage due to higher scale of operations.

**High geographical concentration risk** – TBZ has presence across 12 states in India. However, the major part of its revenue is derived from Maharashtra and Gujarat. Between FY2020 and FY2023, the contribution of these states to the overall revenues stood in the range of 61-68%. In FY2023, the contribution stood at 68%. The risk is mitigated to an extent by the strong brand name enjoyed by TBZ in these states. The geographical concentration is expected to remain on the higher side even in the coming years.

**Performance exposed to intense competition and regulatory risks in jewellery segment** – The domestic jewellery sector continues to be exposed to the regulatory risks, which could have an adverse impact on the business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold amount and imposition of excise duty are some of the regulations that have impacted business prospects in the past. TBZ remains exposed to changes in regulations that may impact its business profile. Further, the jewellery retail business is highly fragmented and is exposed to intense competition from organised and unorganised players. This limits the pricing flexibility enjoyed by the retailers to an extent.

### Environmental and social risks

**Environmental considerations** – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/flooding in the operating regions impacting its jewellery stores. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise also pose risks to revenue growth and profitability.

**Social considerations** – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including, a shift towards less gold-intensive daily/fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on margins, given the skilled nature of work.

## Liquidity position: Adequate

TBZ's liquidity position is expected to remain adequate, supported by steady earnings from operations and adequate unutilised working capital limits. The average utilisation of its fund-based limits over the last 12 months ending in June 2023 stood at ~81% of the sanctioned limits. The entity does not have any major term debt outstanding and the recent enhancement of its working capital limits would further improve the liquidity. The cash flow from operations and the existing working capital facilities are expected to be sufficient to meet the modest capex plans and inventory requirements in the coming years. Any large fund outflow towards contingent liabilities could constrain its liquidity and would be a key monitorable.

## Rating sensitivities

**Positive factors** – TBZ's rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to a rating upgrade include an interest coverage ratio above 4.0 times on a sustained basis.

**Negative factors** – The rating may be downgraded in case of sustained pressure on the company's operating performance or a deterioration in its working capital cycle, adversely impacting the debt protection metrics and the liquidity position of the entity. Specific credit metrics that could lead to a rating downgrade include TOL/TNW above 1.6 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 taken a consolidated view of TBZ along with its subsidiary, given the strong operational and financial linkages

## About the company

Tribhovandas Bhimji Zaveri Limited (TBZ) was started in 1864. The company is one of India's oldest jewellery houses and was reconstituted as a public limited company from a private limited company on December 3, 2010. At that time, they had only one store in Mumbai. Today, TBZ runs 32 showrooms across 12 states in India, of which 29 are operated by the company and the rest are franchise stores. The promoter's long presence in their target market and aggressive pricing policy enabled them to create a brand loyalty. The company got listed on NSE and BSE in 2012. The promoters hold a 74% stake in the company and the operations are looked after by the fifth generation of the promoter family.

## Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	1,843.8	2,393.6
PAT	20.2	40.2
OPBDIT/OI	4.43%	5.22%
PAT/OI	1.09%	1.68%
Total outside liabilities/Tangible net worth (times)	1.8	1.6
Total debt/OPBDIT (times)	7.2	4.6
Interest coverage (times)	2.0	2.4

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

S.no.	Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount outstanding as of (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					August 24, 2023			
1	Issuer Rating	Long term	-	-	[ICRA]A-(Stable)	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	NA

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	Issuer Rating	NA	NA	NA	-	[ICRA]A-(Stable)

Source: Company

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

Company Name	TBZ Ownership	Consolidation Approach
Tribhovandas Bhimji Zaveri Limited	100.00% (Rated Entity)	Full Consolidation
Tribhovandas Bhimji Zaveri (Bombay) Limited	100.00%	Full Consolidation

Source: TBZ Annual Report FY2023

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