

September 25, 2023

Kalyan Jewellers India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund-based – Cash Credit	2,493.00	2,443.00	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Short-term – Interchangeable Limits	(1,663.00)	(1,763.00)	[ICRA]A1; reaffirmed
Long-term – Unallocated Limits	537.00	157.00	[ICRA]A+(Stable); reaffirmed
Total	3,030.00	2,600.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Kalyan Jewellers India Limited, which includes its subsidiaries and step-down subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The reaffirmation of the ratings reflects the healthy operating performance of Kalyan Jewellers India Limited (KJIL) in FY2023 and Q1 FY2024. ICRA expects a sustained improvement in KJIL's performance over the medium term, driven by the company's established market position and industry tailwinds in the form of market share gains for organised jewellery retailers. While reaffirming the ratings, ICRA has noted the company's strategy to expand primarily through the franchisee model, which is likely to keep the incremental capital requirement on the lower side, leading to an improvement in KJIL's capital structure and debt coverage indicators. The company had 15 franchisee stores as on March 31, 2023 and launched another 11 franchisee stores in Q1 FY2024. It plans to open 40-50 franchisee stores per year over the next 2-3 years. Although the adoption of this strategy is likely to result in some moderation in KJIL's operating profit margin, its net profit margin and return on capital employed are expected to improve by this strategy. Given the initial stages of this business model and the low share of the same in the overall revenue at present, the benefits of the franchisee-led expansion strategy are likely to be more visible over the coming quarters. ICRA also notes the company's plans to reduce the outstanding debt over the next 1-2 years, partly through the proceeds of liquidation of specified non-core assets and partly from operating cash flows, which is expected to positively impact its financial risk profile over the medium term.

KJIL's consolidated operating income surged 30% on a YoY basis to Rs. 14,031 crore in FY2023 led by healthy same-store-sales growth, partly due to a steep increase in gold prices during the year, and growing contribution from new store additions. The growth was also supported by recovery in the Middle East operations, revenue from which grew by more than 40% YoY in FY2023. The growth momentum has continued in the current year with the company's revenue increasing to Rs. 4,376 crore in Q1 FY2024, up 31% YoY, led by healthy demand and rapid expansion of retail presence. ICRA expects KJIL's revenue to continue to grow by 15-20% on a YoY basis over the next 1-2 years with the benefits of new store additions accruing to the company. KJIL's net profit margin improved by ~100 bps on a YoY basis to 3.1% in FY2023 and is expected to improve, going forward, with the benefits of the franchisee-model accruing to the company in greater proportions.

The ratings continue to favourably factor in the company's large scale of operations and strong market position, aided by its established brand name along with a track record of over three decades in the jewellery retail industry. KJIL's healthy and improving geographical diversity of revenue and the share of studded jewellery in the product mix place it among the top players in the industry and benefit its margin profile. Increasing adoption of the franchisee model in its retail expansion is likely to reduce the capital requirements, going forward, which are likely to translate into better return indicators. The ratings also factor in the favourable long-term growth prospects for organised jewellery retailers in the country.

The ratings, however, continue to remain constrained by the moderate coverage metrics and return indicators, limited by the high working capital requirements in the business and moderate inventory turnover. KJIL's interest cover, net TOL/TNW and net TOL/Inventory stood at 3.2 times, 1.7 times and 86%, respectively, in FY2023. ICRA expects KJIL's credit metrics to improve over the medium term with limited incremental capital requirements due to adoption of the franchisee model, along with economies of scale. The ratings also consider intense competition, which limits the company's pricing flexibility, coupled with exposure to volatile gold prices and regulatory risks, which have impacted the retailers' performance in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that KJIL will maintain adequate coverage indicators and liquidity profile over the medium term driven by improving cash flow from operations on the back of expanding retail presence.

Key rating drivers and their description

Credit strengths

Established market position with healthy scale of operations – KJIL is among India's largest jewellery retailers and has a strong brand name across the market. Its healthy scale of operations, characterised by more than Rs. 14,000 crore in consolidated revenue from operations in FY2023 and a retail network of 161 showrooms (including two showrooms of Candere) across India and 33 showrooms in the Middle East as on June 30, 2023, benefit the company in terms of economies of scale and improved brand visibility in its target market.

Improving geographical and product diversification; inventory hedging to mitigate risk of price volatility – KJIL's domestic operations have recorded a healthy improvement in geographical diversification, with the share of non-South states increasing to ~40% in FY2023 from less than 30% in FY2018 on the back of the company's focused retail expansion across the country. Moreover, no single state accounted for more than 20% of the company's revenue in FY2023, which further demonstrates a diversified revenue profile. The Middle East business also recorded a healthy recovery in FY2023, after being impacted by the pandemic, which further provides geographical diversification. Consequent to the increasing geographical diversification of revenue, the share of higher-margin studded jewellery in KJIL's revenue increased to more than 24% in FY2023 from ~21% in FY2018 as non-South markets have a higher preference for studded jewellery. Going forward, with the management's plan to aggressively expand its presence in the non-South markets, the revenue diversification is likely to improve further, translating into better return metrics for the company. KJIL has a strong inventory hedging policy through gold metal loans and financial derivatives to mitigate the impact of volatility in gold prices on its revenue and profitability, thereby providing healthy medium-term revenue visibility.

Franchisee-led expansion strategy likely to reduce capital requirements and improve return metrics – KJIL opened its first franchisee store in Aurangabad in Q1 FY2023 and has since adopted the franchisee model as the preferred mode of retail expansion. The model minimises incremental capital requirements as inventory and most of the store's operating expenses are borne by the franchisee partner in return of a share of KJIL's gross margins. The company had a network of 29 franchisee stores in India as on June 30, 2023, and has an aggressive store addition plan over the coming quarters. With the increase in revenue contribution from the franchisee stores, ICRA expects KJIL's return indicators to improve over the medium term.

Favourable industry growth prospects – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency, and higher compliance costs have been resulting in the shifting of market share in favour of the organised jewellery retailers. This is likely to be an advantage for KJIL due to its pan-India presence and brand equity. ICRA expects KJIL to continue to increase its revenue base while riding the industry tailwinds over the medium term, supported by a loyal customer base and an extensive 'My Kalyan' network of stores.

Credit challenges

Moderate coverage metrics and high working capital intensity of operations – KJIL's coverage metrics remain at moderate levels with an interest cover of 3.2 times and DSCR of 2.1 times in FY2023 from 2.4 times and 1.3 times, respectively, in FY2022. Moreover, the industry exhibits high working capital intensity due to large inventory holding requirements for retail stores.

KJIL's working capital intensity, as reflected by NWC/OI of more than 35% in FY2023, also remains high. ICRA, however, expects KJIL's credit metrics and inventory turnover to improve over the coming quarters with the benefits of franchisee-led expansion strategy flowing to the company in the form of limited incremental capital requirement and healthy margins.

Exposed to regulatory risks and intense competition – The domestic jewellery sector continues to remain exposed to the regulatory risks, which could have an adverse impact on the business. Restrictions on bullion imports, mandatory PAN disclosure on transactions above a threshold limit and imposition of excise duty are some of the regulations that have impacted business prospects in the past. 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 retailers to an extent.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few issues of concern include episodes of excessive rainfall/flooding in the operating regions impacting its jewellery stores, as recorded in the past. 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 has supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including, among other things, 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

KJIL's liquidity remains adequate, characterised by free cash and liquid investments of more than Rs. 140 crore, encumbered fixed deposits of more than Rs. 840 crore (as margin for gold metal loans, collateral for borrowings and derivative contracts) and unutilised working capital facilities of more than Rs. 230 crore as on March 31, 2023. The company is expected to generate cash flow from operations of Rs. 450-500 crore in FY2024 and Rs. 800-900 crore p.a. in FY2025 and FY2026 on the back of franchisee model-led growth strategy. Against this, KJIL is projected to have capital expenditure requirement of Rs. 200-250 crore p.a. and debt repayment obligation of Rs. 140-160 crore p.a. The company's average utilisation of sanctioned working capital limits stood at ~92% for the 12-month period ending on July 31, 2023. ICRA also notes the healthy inflows from customers under the jewellery savings schemes and planned liquidation of non-core assets, which provides an additional liquidity buffer.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a sustained healthy growth in revenue and earnings along with better inventory turnover, resulting in improvement in its credit metrics and return indicators. Specific credit metrics that could lead to ratings upgrade include an interest cover above 4.0 times and Net TOL (adjusted for cash)/Inventory below 70% on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is sustained pressure on the operating performance or a deterioration in the working capital cycle, adversely impacting the coverage metrics and the liquidity position. Specific credit metrics that could lead to ratings downgrade include Net TOL (adjusted for cash)/TNW above 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellers (Retail)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KJIL, as specified in Annexure-II

About the company

Kalyan Jewellers India Limited (KJIL), promoted by Mr. T. S. Kalyanaraman and his sons, is an established jewellery retailer in India with an established market presence for more than three decades. The company operates through a pan-India retail network of 161 stores (including two Candere stores) and 33 stores in the Middle East countries as on June 30, 2023. The company is listed on BSE and NSE since March 2021 with the global private equity firm, Warburg Pincus, holding a significant minority stake in the company.

Key financial indicators

KJIL Consolidated	FY2022 (audited)	FY2023 (audited)	Q1 FY2024 (unaudited)
Operating income	10,788	14,031	4,376
PAT	224	432	144
OPBDIT/OI	7.9%	8.1%	7.4%
PAT/OI	2.1%	3.1%	3.3%
Total outside liabilities/Tangible net worth (times)	1.8	1.9	N.A.
Total debt/OPBDIT (times)	4.7	3.8	N.A.
Interest coverage (times)	2.4	3.2	3.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; N.A.- Not Available

Note: All financial metrics are as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
				Sep 25, 2023	Apr 20, 2023	Oct 28, 2022	Jun 03, 2022	Oct 28, 2021	Oct 26, 2020	
1	Cash Credit	Long-term/ short-term	2,443.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
2	Interchangeable Limits	Short-term	(1,763.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

3	Term Loans	Long-term	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
4	Unallocated Limits	Long-term	157.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
5	Fixed Deposit Programme	Long-term	-	-	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A (Stable)	MA (Stable)	MA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund-based – Cash Credit	Simple
Short-term – Interchangeable Limits	Simple
Long-term – Unallocated Limits	N.A.

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
N.A.	Cash Credit	NA	NA	NA	2,443.00	[ICRA]A+(Stable)/[ICRA]A1
N.A.	Interchangeable Limits	NA	NA	NA	(1,763.00)	[ICRA]A1
N.A.	Unallocated Limits	NA	NA	NA	157.00	[ICRA]A+(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	KJIL Ownership	Consolidation Approach
Kalyan Jewellers India Limited	-	Full Consolidation
Subsidiaries		
Kalyan Jewellers FZE, UAE	100.00%	Full Consolidation
Kalyan Jewellers, INC., USA	100.00%	Full Consolidation
Enovate Lifestyles Private Limited	85.00%	Full Consolidation
Step Down Subsidiaries		
Kalyan Jewellers LLC, UAE	100.00%	Full Consolidation
Kalyan Jewellers For Golden Jewelry Company, W.L.L., Kuwait	49.00%	Full Consolidation
Kalyan Jewellers LLC, Qatar	49.00%	Full Consolidation
Kalyan Jewellers LLC, Oman	70.00%	Full Consolidation
Kenouz Al Sharq Gold Ind. LLC, UAE	49.00%	Full Consolidation
Kalyan Jewellers Bahrain W.L.L.	49.00%	Full Consolidation

Source: KJIL annual report FY2023

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Branches



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