October 19, 2023

Kirtilal Kalidas Jewellers Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	162.5	190.0	[ICRA]BBB+(Stable); Reaffirmed/ Assigned for enhanced limits
Long term – Unallocated	-	10.0	
Total	162.5	200.0	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Kirtilal Kalidas Jewellers Private Limited (KKJPL) and its subsidiary, Kirtilal Kalidas Jewellers Inc., while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The rating reaffirmation factors in the improvement in KKJPL's scale of operations, aided by its established brand name in the jewellery retail markets of Tamil Nadu and Telangana. A substantial volume of slow-moving diamond inventory was sold at cost in FY2023, which also contributed to KKJPL's top line growth. The rating also considers the promoter's extensive experience in the industry, and the company's comfortable financial profile, characterised by a conservative capital structure and adequate coverage metrics. Its operational and financial performances are likely to remain healthy in the coming quarters, driven by favourable demand conditions, aided by a slump in gold prices to a seven-month low in the domestic market. Higher share of studded jewellery in the revenue mix supported the operating margin of the entity over the years and remained over ~8.5% till FY2022. While its margins witnessed some correction in FY2023 as the company has cleared a substantial volume of slow-moving diamond inventory at cost, KKJPL's coverage metrics remained healthy with an interest cover of 4.3 times and DSCR of 2.7 times. Going forward, the margins are expected to improve to 7-7.5% in the coming fiscals.

The rating is, however, constrained by the high working capital requirements in the business as large diamond inventory is maintained at various showrooms. Besides, it is exposed to geographical concentration risks as ~76% of the revenue is derived from Tamil Nadu. The rating also remains constrained on account of intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers' performance in the past.

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

Key rating drivers and their description

Credit strengths

Established market position – KKJPL enjoys a strong retail presence and long operational track record in the jewellery market for more than eight decades within Tamil Nadu and Telangana. 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 KKJPL 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 despite entry of many large regional chains in the recent years. In FY2023, the company's revenue grew by 65% to Rs. 1,297 crore, aided by volume growth of 50% in diamond ornaments and 90% in gold ornaments. A part of the growth is attributable to the one-off sale of slow-moving diamond inventory at cost. KKJPL has started FY2024 on a good note with sale of Rs. 721.3 crore in 5M FY2024, a growth of 44% on a YoY basis.

Comfortable financial profile – KKJPL's financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. The company has cleared a large portion of its slow-moving diamond inventory at cost and the same has resulted in a drop of more than 200 bps in the operating margin. Despite the same, the coverage metrics of the company have remained healthy with an interest cover of 4.3 times and DSCR of 2.7 times for the year ended on March 31, 2023. The margins are likely to improve in FY2024 to more than 7% and the coverage indicators are likely to remain comfortable owing to expected steady earnings from operations over the medium term. Further, the financial profile is supported by its adequate liquidity position and relatively limited dependence on external debt, reflected in the total outside liabilities to inventory ratio of ~59%.

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 KKJPL over the years. Further, with its sizeable presence across major markets in Tamil Nadu and Telangana, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support organised trade and provide better opportunities in the near term.

Credit challenges

High working capital intensity – The working capital intensity of KKJPL remained on the higher side in the recent years, primarily due to higher inventory holding period. However, the inventory days moderated to 166 in FY2023 from 299 in FY2021. Going forward, the inventory days are expected to stay in the range of 170-200 days.

High geographical concentration risk – KKJPL faces high geographical concentration risk as ~76% of its revenue was derived from Tamil Nadu in FY2023. Its flagship store in Coimbatore alone contributed ~30% to the total revenues in FY2023. KKJPL's extensive track record and a strong customer base in the key markets provide some comfort. KKJPL has plans for expansion in Telangana, which would help the entity diversify and mitigate the regional concentration to an extent.

Performance exposed to intense competition and regulatory risks in jewellery segment – KKJPL's revenue and profitability are likely to remain susceptible to intense competition in the fragmented retail jewellery industry. While certain regulatory restrictions have aided the shift towards organised trade, some adverse regulatory developments have impacted the domestic gold jewellery industry in the past, which include restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a certain limit, and imposition of excise duty. KKJPL will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Liquidity position: Adequate

KKJPL's liquidity position is expected to remain comfortable, 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 ~90% of the sanctioned limits. The company is expected to generate accruals of more than Rs. 40 crore in FY2024, while the requirements towards capex and debt obligations are limited to Rs. 13.0 crore for the year. Any large cash outflow towards contingent liabilities could constrain its liquidity and would be a key monitorable.

Rating sensitivities

Positive factors – KKJPL's rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, which would consequently improve its debt protection metrics and liquidity position.

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 liquidity position of the entity.

Specific credit metrics that could lead to a rating downgrade include the Interest cover declining below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Gold Jewellery- Retail Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KKJPL. As on March 31, 2023, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

KKJPL was started in 1939 as a partnership concern and was converted into a private limited company in 2007. The company is involved in the business of gold jewellery retailing and has 13 showrooms and two franchisees as on date across Tamil Nadu, Telangana, Andhra Pradesh, Karnataka and Kerala. Kirtilal Kalidas Jewellers Inc. is based out of the US and is a 100% subsidiary of KKJPL. The company is managed by Mr. Paresh Kirtilal Mehta and Mr. T Shantakumar.

Key financial indicators (audited)

KKJPL Consolidated	FY2022	FY2023
Operating income	786.2	1,297.4
PAT	39.7	44.5
OPBDIT/OI	8.52%	6.06%
PAT/OI	5.05%	3.43%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	2.5	2.9
Interest coverage (times)	5.0	4.3

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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					October 19, 2023	September 13, 2022	August 24, 2022	-	-
1	**Fund-based Cash Credit**	Long term	190.0	--	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	**Unallocated**	Long term	10.0	--	**[ICRA]BBB+ (Stable)**				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based cash credit	Simple
Long term – Unallocated	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	**Cash Credit**	**NA**	**NA**	**NA**	190.00	[ICRA]BBB+(Stable)
NA	**Unallocated**	**NA**	**NA**	**NA**	10.00	[ICRA]BBB+(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	KKJPL Ownership	Consolidation Approach
Kirtilal Kalidas Jewellers Private Limited	100.00% (Rated entity)	Full Consolidation
Kirtilal Kalidas Jewellers Inc., USA	100.00%	Full Consolidation

Source: KKJPL Annual Report FY2023

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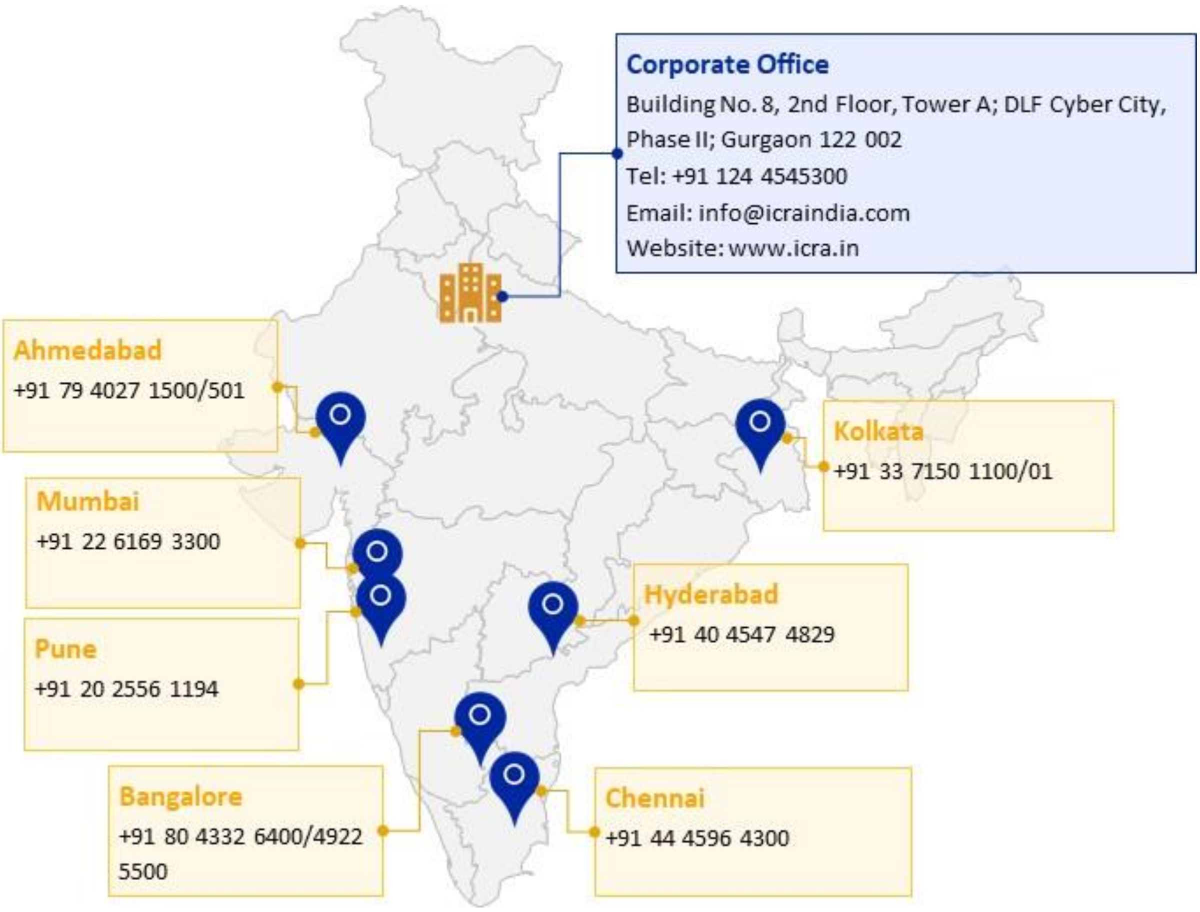

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