

October 31, 2023

AVR Swarnamahal Jewelry Limited: Ratings reaffirmed; rated amount enhanced; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	225.00	280.00	[ICRA]A-(Positive); reaffirmed/assigned for enhanced limits and outlook revised to positive from stable
Long term Fund based Term Loans	-	37.70	[ICRA]A-(Positive); assigned
Short-term Fund-based Interchangeable Limits#	(215.00)	(167.50)	[ICRA]A2+; reaffirmed
Short-term Non-fund Based	2.40	2.40	[ICRA]A2+; reaffirmed
Fixed Deposit Programme	50.00	50.00	[ICRA]A-(Positive); reaffirmed and outlook revised to positive from stable
Long-term/Short-term Unallocated	32.60	-	
Total	310.00	370.10	

*Instrument details are provided in Annexure-I; # - sublimit of Cash Credit facility

Rationale

The ratings reaffirmation factors in AVR Swarnamahal Jewelry Limited's (AVR) established market position in Tamil Nadu, especially in the Salem region and a significant increase in its scale of operations in FY2023 over the previous fiscal. The ratings also consider 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. In FY2023, the company's revenue grew by ~52% on a YoY basis to ~Rs. 2,235 crore, supported by a volume growth of 40% and firm gold realisations. Despite a ~97 bps drop in the operating margin in FY2023 due to higher selling expenses, the decline in the net profit margin was marginal due to an increase in the non-operating income. The company has achieved revenue of ~Rs. 1,283 crore in H1 FY2024, a YoY growth of ~11%. Its operational and financial performances are likely to remain healthy in the coming quarters, driven by favourable demand conditions. AVR's coverage metrics have remained healthy with an interest cover of 3.6 times and DSCR of 3.1 times. Going forward, the margins are expected to improve as the company plans to add lab grown diamond jewellery stores, which yield higher margins than plain gold jewellery.

The ratings remain constrained by AVR's moderate operating profitability on account of low contribution from studded jewellery. The ratings also remain constrained by the high working capital requirements of the business, geographical concentration risks and vulnerability of AVR's earnings to volatility in gold prices. The ratings also factor in the inherent regulatory risks in the jewellery industry, which could impact the retailer's performance.

The Positive outlook on the rating reflects ICRA's opinion that AVR's operational and financial performances will continue to benefit from favourable demand conditions, its established market position, increase in focus on expansion in new markets and studded jewellery segment and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established market position along with strong brand recall in the Salem region – AVR has an established retail presence in the northern part of Tamil Nadu, especially in the Salem market, for over eight decades. Vast experience of the promoters in the gold jewellery industry coupled with focus on providing ornament designs that suit specific tastes and preferences of the customers enabled the company to establish the strong brand of AVR and capture a loyal customer base, which has driven its revenue growth through repeat purchases. Its strong brand equity is illustrated by a steady revenue growth witnessed by AVR in the region, despite entry of many large regional chains in the recent years. The company earned a revenue of Rs. 2,234.6 crore in FY2023 with a PAT of Rs. 53.8 crore. AVR has started FY2024 on a good note with revenues of Rs. 1,283.2 crore in 6M FY2024, a 11% growth on a YoY basis. Going forward, the company plans to open exclusive lab grown diamond stores and exclusive silver jewellery stores, which would help improve the bottom line of the business.

Comfortable financial profile – AVR continues to maintain a comfortable capital structure and healthy debt protection metrics with an interest cover of 3.6 and a net gearing of 0.9 times. In the last five years, AVR's revenues rose at a CAGR of 11% while the net profit has increased at a CAGR of 17%. Further, the financial profile of AVR is expected to remain healthy, supported by its adequate liquidity position and relatively limited dependence on external debt.

Growth prospects in jewellery segment underpinned by large industry size and fragmented market shares – 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 AVR over the years. Further, with AVR's significant presence in tier 2 and tier 3 markets, regulatory changes such as mandatory hallmarking of gold jewellery from June 2021 would further support the organised trade and provide better opportunities for the company.

Credit challenges

Earnings exposed to geographical concentration risks – The company faces relatively higher geographical concentration risk as its main areas of operations are Salem and its neighbouring markets, with Salem continuing to contribute ~50% to the revenues in FY2023. The geographical concentration has limited revenue growth over the years due to the entry of various leading jewellery brands. The company has expanded to other key markets like Erode and Bengaluru in the last decade and has plans to expand in other key markets in Tamil Nadu in the near-to-medium term. The company has further planned to enter new markets like Chennai and tier 2 cities of Andhra Pradesh. These are expected to mitigate the regional concentration risk to an extent.

Modest operating profitability – AVR's operating margin and return indicators, though improving, have remained modest over the years because of low contribution from studded jewellery and low margins/pricing flexibility, limited by intense competition in key markets. In FY2023, the operating margin of the company dropped by ~97 bps to 4.0% due to higher selling expenses. Further, its earnings remain exposed to volatile gold prices, as seen in the past, with the risk mitigated to some extent by the hedging of 70-80% of the stock levels through metal loans and commodity exchanges.

Performance exposed to intense competition and regulatory risks in jewellery segment – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restriction on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold and imposition of excise duty are some of the regulations that have impacted business prospects in the past. AVR 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 retailers to an extent.

Liquidity position: Adequate

AVR's liquidity position is adequate, characterised by free cash, liquid investments and unutilised working capital limits of ~Rs. 60 crore as on March 31, 2023. The average utilisation of its fund-based limits over the last 12-month period ended in August 2023 has been around 73% of the sanctioned limits. The working capital limits have been enhanced to Rs. 280 crore in April 2023, which is expected to be sufficient to fund the company's expansion plans and inventory requirements for the next 15-18 months. While the company's funding requirements towards capital expenditure and debt repayment obligations are estimated to be Rs. 25-30 crore in FY2024, its cash accruals from business would be significantly higher than the requirement. The company's liquidity is further expected to be supported by issuance of fixed deposits.

Rating sensitivities

Positive factors – AVR's ratings 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 ratings upgrade include an interest coverage ratio above 4.0 times on a sustained basis.

Negative factors – The ratings 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery – Retail Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

AVR was incorporated in August 2009 and acquired the jewellery businesses of the AVR family-run firms, named AVR Swarnamahal and Swarnapuri AVR. The company is involved in the business of gold jewellery retailing and has 19 operational showrooms at present, with 16 in Tamil Nadu and three in Bengaluru. It has a leading market share in Salem and plans to venture in other key markets in Tamil Nadu in the near term.

Key financial indicators (audited)

AVR	FY2022	FY2023
Operating income	1,471.6	2,234.6
PAT	37.6	53.8
OPBDIT/OI	4.97%	4.00%
PAT/OI	2.56%	2.41%
Total outside liabilities/Tangible net worth (times)	1.9	1.9
Total debt/OPBDIT (times)	4.1	3.5
Interest coverage (times)	3.4	3.6

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	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
					Oct 30, 2023	Oct 20, 2022	Oct 13, 2022	Sep 16, 2021	Apr 15, 2020
1 Cash Credit	Long term	280.00	--	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	
2 Term Loans	Long term	37.70	37.70	[ICRA]A-(Positive)					
3 Fund based Interchangeable limits*	Short term	(167.50)	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	
4 Non-fund based Limit	Short term	2.40	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2	
5 Fixed Deposit Programme	Long term	50.00	--	[ICRA]A-(Positive)	[ICRA]A-(Stable)	-	-	-	
6 Unallocated	Long term and short term	-	--	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable)/[ICRA]A2	

*-Sublimit of Cash Credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Cash Credit	Simple
Long term fund based term loans	Simple
Fixed Deposit Programme	Very Simple
Short-term Fund-based Interchangeable Limits	Very Simple
Short-term Non-fund Based	Very 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	280.0	[ICRA]A-(Positive)
NA	Fund based interchangeable limits*	NA	NA	NA	(167.5)	[ICRA]A2+
NA	Term Loans	FY2023	NA	FY2028	37.7	[ICRA]A-(Positive)
NA	Fixed Deposit Programme	NA	8.0%-9.0%	NA	50.0	[ICRA]A-(Positive)
NA	Non Fund based – Forward Contract	NA	NA	NA	2.4	[ICRA]A2+

Source: Company; * - sublimit of Cash Credit facility

[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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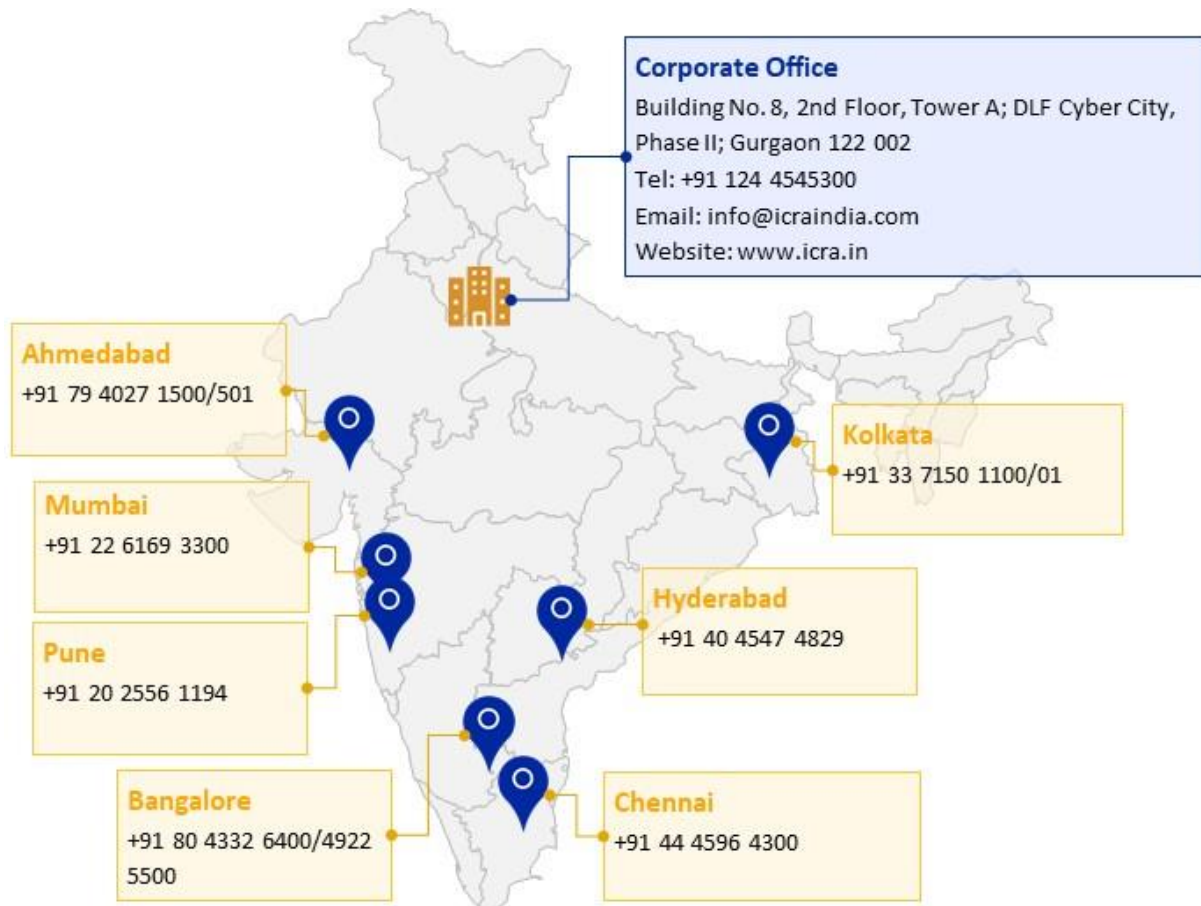
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