March 07, 2024

Orra Fine Jewellery Private 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/Non-fund based facilities	265.00	265.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Long-term/Short-term - Fund-based/Non-fund based Interchangeable limits	(335.00)	(335.00)	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	**265.00**	**265.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned to Orra Fine Jewellery Private Limited (OFJPL) factors in the strong ramp-up in sales in FY2023 and FY2024, which is likely to continue in FY2025, aided by favourable demand conditions in the gems and jewellery industry and scaling up of operations of its existing and new stores. Notwithstanding a margin decline in FY2023, increased sales and the resultant benefits of the operating leverage are likely to improve OFJPL's operating profit margins (OPM) in FY2024, leading to strengthening of its credit metrics. Over the last five years, the share of margin-accretive diamond studded jewellery within the overall sales mix of OFJPL has increased to 80-85% (from 50% earlier), which led to an improvement in OPM, besides break-even of operations of new stores. OFJPL's revenues are geographically diversified as its stores are located pan India (except in the eastern region). OFJPL further plans to add 12-18 stores each year in the near-to-medium term across tier-I and tier-II cities, which will further diversify its geographical mix and contribute to revenue growth.

The ratings are, however, constrained by its leveraged capital structure due to high external borrowings to fund working capital requirements. Despite an equity infusion of around Rs. 32.0 crore in the current fiscal deployed towards store expansion, the capital structure is expected to remain aggressive due to an increase in lease liabilities, led by store additions and an increase in working capital debt to meet incremental funding requirement for new stores. The working capital intensity of operations remains high primarily due to high inventory holding period inherent to the nature of the retail jewellery business. The ratings also remain constrained on account of intense competition in a fragmented industry structure, which limits pricing flexibility. The ratings also factor in the susceptibility of the company's profit margins to volatility in gold and diamond prices and exposure to regulatory risks.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that OFJPL will continue to benefit from favourable demand conditions in the gems and jewellery industry along with regular store expansion.

Key rating drivers and their description

Credit strengths

Healthy sales traction in FY2023 and FY2024; improved debt coverage indicators – OFJPL reported healthy sales of ~Rs. 950 crore in FY2023 (against revenues of Rs. 523 crore in FY2022), aided by favourable demand conditions in the gems and jewellery industry and ramp-up of operations of its existing and new stores. Besides, continuous focus on marketing and designs led to an increase in sales of diamond studded jewellery, boosting the revenues of the company. OFJPL recorded revenues of Rs. 879 crore in 9M FY2024. Over the medium term, the revenue growth will be driven by ramp-up of existing stores (led by higher demand for diamond studded jewellery) and new store additions (in tier-II cities) through a mix of owned and franchising model.

The gross margin moderated in FY2023 to 33% from 38% in FY2022, led by liquidation of inventory at a lower price. With moderation in gross margin in FY2023, the OPBDITA margin also moderated and stood at 12.4% in FY2023 against 14.5% in FY2022. Nevertheless, with an improvement in revenues and profits in absolute terms in FY2023, the coverage indicators also improved with total debt to OPBDITA of 3.5 times in FY2023 against 4.6 times in FY2022. The interest coverage also improved to 2.3 times in FY2023 from 2.0 times in FY2022.

Geographically diversified sales mix – OFJPL operates 90 stores across more than 27 cities in India. Given its pan-India presence, the revenues are geographically diversified with the western region accounting for ~36% of the total retail sales followed by the southern and the northern regions, accounting for around 18% each. The balance of around 28% comes from corporate sales. OFJPL further plans to add 12-18 stores each year in the near-to-medium term across tier-I and tier-II cities, which will further diversify its geographical mix and contribute to revenue growth.

High share of diamond-studded jewellery – Over the last four to five years, the share of margin-accretive diamond studded jewellery within the overall sales mix of OFJPL has increased to around 85% (from 50% earlier), which contributed to healthy profits. Going forward, OFJPL's continuous focus to increase the share of studded jewellery within the overall sales would support its OPM.

Credit challenges

Leveraged capital structure – OFJPL's leverage indicators have remained high on the back of the working capital-intensive nature of operations, mainly funded through external borrowings. The gearing and TOL/TNW stood at 2.8 times and 4.1 times, respectively as on March 31, 2023. Despite an equity infusion of around Rs.32.0 crore in the current fiscal, which was largely used for store expansion, the capital structure is expected to remain aggressive. This is mainly due to an increase in lease liabilities, led by store additions, and an increase in the working capital debt to meet incremental funding requirement for new stores.

High working capital intensity of operations – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income (NWC/OI), remained high at around 35% in FY2023 due to the need to maintain high inventory at stores and relatively lower revenue base. Given the healthy revenue growth in the current fiscal and ramp-up of operations of existing and new stores, the NWC/OI is expected to remain in the range of 30-40%, as inherent to the nature of the jewellery retail business.

Intense competition from unorganised and organised players; margins susceptible to volatility in gold and diamond prices – The jewellery retail business remains exposed to intense competition, given the presence of many organised and unorganised players, leading to limited pricing flexibility among players. However, OFJPL is insulated to an extent, given its strong presence in the margin-accretive diamond-studded jewellery segment.

OFJPL's operating profitability is exposed to fluctuation in gold and diamond prices, given that raw materials account for 70-80% of the total cost. The domestic jewellery retail sector continues to be exposed to the risks arising from the evolving regulatory landscape, 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 limit and imposition of excise duty are some of the regulations that have impacted business prospects in the recent past.

Liquidity position: Adequate

The company's liquidity remains adequate on the back of its increasing cash generation from the business, supported by better product mix, store additions and sales growth in existing stores. The company has free cash and liquid investments of Rs. 2.6 crore as on March 31, 2023 while its average bank limit utilisation level stood at 97% of the sanctioned limits during the 12-month period ended in December 2023. The company availed the Emergency Credit Line Guarantee Scheme (ECLGS) term loans worth Rs. 25.0 crore in FY2021 and FY2022, which are repayable in five years (Rs. 4.6 crore in FY2024 and Rs. 6.2 crore in FY2025). OFJPL incurs capital expenditure (capex) primarily on furniture and fixtures towards opening new stores (leased). The capex is estimated at Rs. 1-2 crore per store (to be funded by internal accruals) with 12-18 stores likely to be added in FY2024 and FY2025 each.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a healthy growth in revenues and profitability of the company, which leads to an improvement in its credit metrics and the liquidity position.

Negative factors – The ratings could be downgraded if there is a deterioration in the company's earnings, which materially impact its financial profile and/or the liquidity position. Specific credit metric that could lead to ratings downgrade includes interest cover remaining below 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Jewellery – Retail
Parent/Group Support	Rosy Blue India Private Limited (rated [ICRA]A-(Stable)/[ICRA]A2+) has provided corporate guarantee for bank facilities availed by OFJPL.
Consolidation/Standalone	Standalone

About the company

Incorporated in 1991 by the Bhansali and the Mehta families, promoters of one of India's largest cut and polished diamond (CPD) manufacturing companies namely Rosy Bule (India) Private Limited (RBIPL), OFJPL (erstwhile Inter Gold Gems Private Limited) manufactures and retails branded gold and diamond-studded jewellery in India. OFJPL was incorporated to establish Rosy Blue's retail presence in the country, but the company's operations were expanded only from FY2004. The promoters introduced professional management for managing the day-to-day affairs and functioning of the company while providing strong financial backing for its growth. Its operations are headed by Mr. Dipu Mehta (part of the promoter Mehta family). At present, it retails gold and diamond-studded jewellery under the 'Orra' brand through its 90 outlets located in around 30 cities. While jewellery designing is undertaken by its in-house team of professional designers, jewellery manufacturing is completely outsourced to vendors.

In FY2023, OFJPL filed a scheme for corporate restructuring for conversion of a part of equity shares held by RBIPL into non-convertible redeemable preference shares. Subsequently, OFJPL received approval from National Company Law Tribunal(NCLT) for the same and the scheme became effective from July 3, 2023. Thus, Orra ceased to be a subsidiary of RBIPL.

Key financial indicators

	FY2022	FY2023
Operating Income (Rs. crore)	522.9	950.9
PAT (Rs. crore)	14.0	19.5
OPBDIT/OI (%)	14.5%	12.4%
PAT/OI (%)	2.7%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	4.7	4.1
Total Debt/OPBDIT (times)	4.6	3.5
Interest Coverage (times)	2.0	2.3

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
All ratios are as per ICRA calculations and as per IND AS accounting standard

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. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Mar-07 2024	23-Jan-2023	07-Apr-2022	08-Apr-2021	01-Sep-2020
1	Fund-based/ non-fund-based facilities	LT/ST	265.00	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB+ (CE)(Stable)/ [ICRA]A2(CE)	[ICRA]BBB(CE) (Stable)/ [ICRA]A3+(CE)	[ICRA]BBB(CE) (Negative)/ [ICRA]A3+(CE)
2	Fund-based/ non-fund based sublimits	LT/ST	(335.00)	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB+ (CE)(Stable)/ [ICRA]A2(CE)	[ICRA]BBB(CE) (Stable)/ [ICRA]A3+(CE)	[ICRA]BBB(CE) (Negative)/ [ICRA]A3+(CE)

Amount in Rs. crore; LT – Long-term; ST – Short-term

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term/Short-term, Fund-based / Non-fund based facilities	Simple
Long-term/Short-term, Fund-based / Non-fund based interchangeable	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	**Long-term/Short-term, Fund-based / Non-fund based facilities**	-	-	-	265.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	**Long-term/Short-term, Fund-based / Non-fund based interchangeable**	-	-	-	(335.00)	[ICRA]BBB(Stable)/[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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