

March 22, 2024

Kirtilal Kalidas Jewellers Private Limited: [ICRA]BBB+ (Stable) reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	190.00	230.00	[ICRA]BBB+ (Stable), reaffirmed/assigned
Long-term – Unallocated Limits	10.00	0.00	-
Total	200.00	230.00	

* 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 rating, given the common management and significant operational and financial linkages between them.

The rating considers the promoter’s extensive experience in the retail jewellery business and established track record of KKJPL’s operations, aided by its established brand name in the jewellery retail markets in southern India. The rating continues to derive comfort from the favourable financial risk profile of the company, characterised by a conservative capital structure and comfortable debt protection metrics, which are likely to continue, going forward. In the first half of the current fiscal, KKJPL, on a standalone basis, reported a turnover of around Rs. 856 crore, primarily driven by increased volume of gold sales. The overall performance of the company is likely to remain comfortable, in the near-to-medium term, driven by favourable growth prospects in the jewellery segment.

The rating, however, is constrained by the intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers’ performance in the past. The rating is also impacted by the high working capital requirements in the business as large inventory is maintained at various showrooms, exerting pressure on its liquidity. 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. However, its margins witnessed some correction in FY2023 as the company has cleared a substantial volume of slow-moving diamond inventory at cost. Besides, the company remains exposed to geographical concentration risk as ~76% of the revenue is derived from Tamil Nadu.

The Stable outlook on the long-term rating reflects ICRA’s expectations that an established track record of the company’s operation in the jewellery retail segment, its conservative capital structure and an adequate liquidity position would continue to support its business and credit profiles.

Key rating drivers and their description

Credit strengths

Established market position and strong presence in Southern India – The operations of KKJPL are spread across Tamil Nadu, Telangana, Andhra Pradesh, Karnataka and Kerala. The company enjoys a strong retail presence and has an operational track record of more than eight decades in the southern India jewellery market. 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 it to establish its strong brand and capture a loyal customer base. The same drove its revenue growth through repeat purchases across all the key markets. In FY2023, the company’s revenue grew by 65% to Rs. 1,297 crore, aided

by a volume growth of 50% in diamond ornaments and 90% in gold ornaments. In the first half of the current fiscal, KKJPL, on a standalone basis, reported a turnover of around Rs. 856 crore, primarily driven by increased volume of sales. ICRA expects the overall top line of the company on a consolidated basis to grow by around 24% in FY2024 on a YoY basis.

Favourable financial risk profile characterised by a conservative capital structure and comfortable coverage indicators – The capital structure of the company has remained conservative over the past years owing to a healthy net worth and limited reliance on external liabilities. The gearing and TOL/TNW of the company stood at 0.8 times and 1.0 times, respectively as on March 31, 2023. The coverage indicators of KKJPL remained at a comfortable level on account of healthy profits and cash accruals along with low debt level. ICRA does not foresee any major deterioration in the capital structure and debt protection metrics of the company, going forward.

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, 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

Performance susceptible 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.

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 risk to an extent.

High working capital intensity of operations exerting pressure on liquidity – Historically, the company's working capital intensity remained at a high level because of large inventory holding across its showrooms. KKJPL's NWC/OI stood at around 47% in FY2022, thereby exerting pressure on its liquidity position. However, the same reduced to around 36% in FY2023, primarily driven by relatively lower inventory holding compared to its top line. ICRA expects that the company's working capital intensity of operations would continue to remain at a high level, going forward.

Liquidity position: Adequate

The average utilisation of its fund-based limits over the last 12 months, ended in December 2023, stood at around 94% of the sanctioned limits. The company is likely to generate cash accruals of more than Rs. 45 crore in FY2024, while the requirements towards capex and debt obligations are limited to around Rs. 12 crore for the year. In view of steady earnings from operations, surplus cash/ bank balances and unutilised working capital limits, ICRA expects KKJPL's liquidity position to continue to remain adequate, going forward. 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 Jewellery - Retail
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 II.

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 14 showrooms and one franchisee, at present, across Tamil Nadu, Telangana, Andhra Pradesh, Karnataka and Kerala. Kirtilal Kalidas Jewellers Inc. is based out of the US and is a wholly-owned subsidiary of KKJPL. The company is managed by Mr. Paresh Kirtilal Mehta and Mr. T Shantakumar.

Key financial indicators (audited)

KKJPL	Standalone			Consolidated	
	FY2022	FY2023	H1 FY2024*	FY2022	FY2023
Operating income	756.4	1,276.4	856.1	786.2	1,297.4
PAT	31.0	40.3	35.6	39.7	44.5
OPBDIT/OI	7.4%	5.7%	6.8%	8.5%	6.1%
PAT/OI	4.1%	3.2%	4.2%	5.0%	3.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	1.1	1.0	1.0
Total debt/OPBDIT (times)	3.0	3.1	2.1	2.5	2.9
Interest coverage (times)	4.2	4.0	6.2	5.0	4.3

Source: Kirtilal Kalidas Jewellers Private Limited, ICRA Research; * Provisional numbers; All ratios as per ICRA’s calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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
				Mar 22, 2024	Oct 19, 2023	Sep 13, 2022	Aug 24, 2022	-	-
Fund-based –									
1 Working Capital Facilities	Long Term	230.00	189.41	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2 Unallocated Limits	Long Term	-	NA	-	[ICRA]BBB+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Unallocated Limits	Not applicable

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/ WCDL 1	-	-	-	35.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 2	-	-	-	60.00	[ICRA]BBB+ (Stable)
NA	Gold Metal Loan 1	-	-	-	60.00	[ICRA]BBB+ (Stable)
NA	Gold Metal Loan 2	-	-	-	15.00	[ICRA]BBB+ (Stable)
NA	Cash Credit 3	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	Cash Credit 4	-	-	-	12.00	[ICRA]BBB+ (Stable)
NA	WCDL 3	-	-	-	18.00	[ICRA]BBB+ (Stable)

Source: Kirtilal Kalidas Jewellers Private Limited

[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's Ownership	Consolidation Approach
Kirtilal Kalidas Jewellers Inc., USA	100.00%	Full Consolidation

Source: Annual Report of 2022-23 of Kirtilal Kalidas Jewellers Private Limited

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