March 26, 2024

Joyalukkas India Limited: Ratings reaffirmed for bank facilities; rating reaffirmed and withdrawn for fixed deposit programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term fund based – Working Capital Facilities	1,493.52	1,493.52	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Short-term fund based/non-fund based (Interchangeable Limits)	(978.00)	(978.00)	[ICRA]A1; reaffirmed
Long-term fund based – Term Loans	18.48	18.48	[ICRA]A+ (Stable); reaffirmed
Fixed Deposit	600.00	0.00	[ICRA]A+ (Stable); reaffirmed and withdrawn
Total	**2,112.00**	**1,512.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings reflects the healthy operating and financial performances of Joyalukkas India Limited (JIL) in FY2023 and 9M FY2024 and ICRA's expectations of sustained performance in the medium term, aided by its established market position, planned store addition and market share gains in the fast formalising industry. The ratings continue to favourably factor in the established market position with strong brand recall of the Joyalukkas brand in the south Indian market. JIL plans to expand its retail presence over the next two years, along with some diversification in the western and north Indian regions, which is expected to support the company's revenue growth over the medium term. JIL's revenue grew by 41% on a YoY basis to Rs. 14,513 crore in FY2023 and ~17% on a YoY basis to ~Rs. 12,500 crore in 9M FY2024 on the back of new store addition and rising gold prices. Its operating profit margin sustained above 10% p.a., despite some moderation due to higher discounts offered to customers in the light of intensifying competition along with increased advertising expenditure and front-loaded operating expenditure on new store additions. ICRA expects JIL's revenue growth to be in the range of 12-15% p.a. over the next 2-3 years with the operating profit margin in the range of 10-11% p.a. The ratings also consider JIL's comfortable financial risk profile with the gearing expected to remain ~0.5 times, interest cover above 6.5 times and TOL/TNW below 1.0 times over the next 2-3 years.

The ratings, however, remain constrained by the high working capital intensity of operations due to large inventory holding requirements, which are likely to increase in the coming quarters to fund the incremental inventory requirement for new stores, putting pressure on its inventory turnover. Intense competition from other national, regional and local jewellery retailers limits the pricing power. JIL's revenue and earnings remain exposed to volatile gold prices due to lack of a defined hedging policy. The industry is also exposed to regulatory risks, including unanticipated changes in regulations and investigations by government agencies, which had impacted the performance in the past.

ICRA has withdrawn the [ICRA]A+(Stable) rating assigned to the fixed deposit (FD) programme of JIL on the basis of withdrawal request received from the company along with the confirmation that no amount was outstanding against the FD as on the date of the request for withdrawal of the rating, in accordance with ICRA's policy on withdrawal of credit ratings.

The Stable outlook on the long-term rating reflects ICRA's expectations that JIL will continue to maintain comfortable debt coverage indicators over the medium term, aided by healthy revenue growth and steady accruals.

Key rating drivers and their description

Credit strengths

Established market position and expanding retail network – JIL is among the largest organised jewellery retailers in India with an established presence in the south India market. Its brand, Joyalukkas, enjoys a healthy market position with high brand loyalty among customers. The company operated through a network of 92 retail stores as on December 31, 2023 and commands a strong market share in Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala, which cumulatively accounted for 89% of JIL's revenue in 9M FY2024. JIL opened 5 new stores in 9M FY2024 and plans to open 4-5 more stores in March-April 2024, before *Akshaya Tritiya*. While its business remains concentrated in south India, JIL operates 16 stores in non-south markets, mainly in Maharashtra and Delhi. JIL's expanding retail presence coupled with its established brand and extensive experience of its promoters are expected to continue to drive footfalls and revenue growth over the medium term.

Comfortable financial risk profile aided by healthy operating performance – JIL's operating income grew by 41% YoY to Rs. 14,513 crore in FY2023 and by ~17% YoY to ~Rs. 12,500 crore in 9M FY2024, driven by calibrated store additions and a steady rise in gold prices. JIL's operating margin in 9M FY2024 sustained above 10%, aided by a favourable studded mix, despite front-ended operating expenditure on new stores and relatively higher selling expenses. The healthy operating performance translated into a comfortable financial profile with interest cover, TOL/TNW and TOL/Inventory improving to 6.8 times, 1.1 times and 61%, respectively, in H1 FY2023. Going forward, key credit metrics are likely to remain comfortable over the medium term, supported by steady operating performance.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation in the recent year have accelerated the shift in the market share from unorganised players. The industry tailwind is expected to benefit the organised jewellery retailers like JIL over the medium term, supported by its strong brand equity and increasing retail presence.

Credit challenges

High working capital intensity of operations and intense competition – Jewellery retailing business is inherently working capital intensive due to high inventory holding requirement, given the need to display varied designs of jewellery to customers. JIL's inventory requirements are likely to increase further owing to the aggressive store expansion plans over the medium term and the absence of a franchisee model, translating into increase in its NWC/OI to 35-40% over the medium term. Maintaining stock turnover at a healthy level while generating sufficient fund flow from operations and enhancement of working capital bank limits remain key monitorable. Moreover, the jewellery retailing industry is highly fragmented and competitive with presence of many organised and unorganised players translating into limited pricing flexibility.

Exposure to regulatory risks and volatility in gold prices – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape, which could adversely impact JIL's business. Mandatory PAN disclosure on transactions above a threshold limit, imposition of excise duty and GST and demonetisation are some of the regulations that have impacted demand and supply in the past. JIL remains exposed to regulatory changes that may impact its business profile. Moreover, JIL's revenue and profitability remain exposed to volatility in gold prices in the absence of gold metal loans and a defined inventory hedging policy. However, this risk is mitigated to an extent by the extensive experience of promoters and daily purchases of gold to manage inventory costs.

Liquidity position: Adequate

JIL's liquidity position remains adequate, supported by steady earnings from operations and buffer from unutilised working capital limit (with commensurate drawing power). The company had free cash and undrawn limits worth ~Rs. 350 crore as on December 31, 2023. While the fund flow from operations is expected to be healthy at Rs. 1,100-1,300 crore p.a. in the next 1-2 years, the cash flow from operations is likely to remain constrained due to sizeable inventory requirements for planned store additions. JIL has capex requirements of Rs. 80-110 crore p.a. and debt repayment obligation of Rs. 40-50 crore p.a. (including lease liabilities) over the next 2-3 years. The average utilisation of sanctioned working capital limits stood at ~95% for the 12-month period ending on November 30, 2023. Nevertheless, incremental limits of ~Rs. 370 crore sanctioned by the banks (including in-principle approval of Rs. 175 crore) in the current fiscal provides comfort.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company registers a sustained growth in revenue while maintaining healthy profitability, translating into better cash accruals, while improving the debt coverage metrics and liquidity position.

Negative factors – Pressure on the ratings could arise if any legal action adversely impacts the operating or financial performance of the company. Sustained pressure on the operating performance or a deterioration in the working capital cycle, adversely impacting the coverage metrics and liquidity position could also result in ratings downgrade. Specific credit metrics that could lead to ratings downgrade include TOL/TNW above 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery - Retail Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Joyalukkas India Limited (JIL), promoted by Mr. Alukkas Varghese Joy and family, is among the largest organised jewellery retailers in India with a presence of more than three decades in the industry. The company operates 92 retail stores, as on December 31, 2023, of which 76 stores were across south Indian states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala. The company derives ~90% of its revenue from south India with gold jewellery contributing ~80% to its operating income.

Key financial indicators

	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (provisional)
Operating income	10,309	14,513	8,396
PAT	700	899	519
OPBDIT/OI	12.0%	10.9%	10.8%
PAT/OI	6.8%	6.2%	6.2%
Total outside liabilities/Tangible net worth (times)	1.3	1.1	1.1
Total debt/OPBDIT (times)	1.8	1.5	1.4
Interest coverage (times)	5.9	6.6	6.8

Source: Company, ICRA Research; 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	Current rating (FY2024)					Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021
					Mar 26, 2024	Feb 15, 2024	Oct 12, 2023	Mar 23, 2023	Mar 03, 2023	Jun 03, 2022	Mar 28, 2022	Nov 18, 2021	Aug 31, 2020
1	**Fixed Deposits**	Long-term	600.00	-	**[ICRA]A+ (Stable); withdrawn**	[ICRA]A+ (Stable)	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ (Stable)	[ICRA]MA+ (Stable)	-	-
2	**Term Loans**	Long-term	18.48	20.8	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	**Fund based Working Capital Facilities**	Long-term/ short-term	1,493.52	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
4	**Fund based/ non-fund based (sub limits)**	Short-term	(978.00)	-	**[ICRA]A1**	[ICRA]A1	[ICRA]A1 Rating Watch with Negative Implications	[ICRA]A1 Rating Watch with Negative Implications	[ICRA]A1 Rating Watch with Negative Implications	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	**Unallocated Limits**	Long-term/ short-term	-	-	**-**	-	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ Rating Watch with Negative Implications/ [ICRA]A1 Rating Watch with Negative Implications	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposit	Very Simple
Long-term fund based – Term Loans	Simple
Long-term/short-term fund based – Working Capital Facilities	Simple
Short-term fund based/non-fund based (Interchangeable Limits)	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	**Fixed Deposits**	NA	NA	NA	600.00	[ICRA]A+ (Stable); withdrawn
NA	**Term Loan-I**	FY2021	~9%	FY2025	3.13	[ICRA]A+ (Stable)
NA	**Term Loan-II**	FY2021	~9%	FY2027	15.35	[ICRA]A+ (Stable)
NA	**Fund based Working Capital Facilities**	NA	NA	NA	1,493.52	[ICRA]A+ (Stable)/ [ICRA]A1
NA	**Fund based/non-fund based (sub limits)**	NA	NA	NA	(978.00)	[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – N.A.

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About ICRA Limited:

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