May 16, 2024

Novel Jewels Limited: Ratings 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 - Term Loan	50.00	50.00	[ICRA]A- (Stable); Reaffirmed
Long-term – Fund Based/ Non-Fund Based - Working Capital Facilities	450.00	1,200.00	[ICRA]A- (Stable); Reaffirmed and assigned for enhanced amount
Long-term/short-term – Unallocated Limits	250.00	200.00	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
Total	**750.00**	**1,450.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Novel Jewels Limited (NJL) factors in the company's strong parentage for being a part of the Aditya Birla Group (ABG/Group) along with its strong managerial, operational and financial linkages with the Group. NJL was incorporated in FY2023 by ABG to enter the domestic jewellery retailing industry and set up a pan-India jewellery brand, while benefitting from the industry tailwinds of accelerated formalisation, leveraging the strong brand recall of the Aditya Birla Group among Indian consumers and the Group's experience in domestic retail. Accordingly, ABG plans to invest ~Rs. 5,000 crore in NJL, in a phased manner, over five years from FY2024. The ratings also factor in the Group's willingness to support NJL through regular equity infusion over the near-to-medium term to fund the latter's initial operational losses and debt servicing obligations owing to NJL's strategic importance to the Group's business diversification plans and reputation. The ratings also derive comfort from the strong leadership team of NJL, comprising senior leadership of ABG and other senior executives with experience in the jewellery and other consumer-oriented industries, which is expected to aid in execution of the business plan. The commencement of NJL's jewellery retail operation is now expected from Q2 FY2025 vis-à-vis March-April 2024 planned earlier. The company has already signed lease agreements for a few initial stores across the metros and large cities in North, West and Central India and is in discussion with landlords at various cities for more leases. NJL has also started product designing and has received sanction of credit limits from banks for sizeable working capital, reflecting the company's readiness to commence operations in the near term.

The ratings are, however, constrained by the execution risks, including profitable scale-up of stores in a timely manner. Being a new entrant in the industry, the company faces intense competition from larger national and regional players. The company is likely to invest significantly in establishing its brand among jewellery consumers while also differentiating itself from the competitors. Moreover, entities in the jewellery industry are exposed to regulatory risks, which could impact demand/supply conditions.

The Stable outlook on the long-term rating reflects ICRA's expectations that ABG will support NJL through regular capital infusions to fund its initial operational losses and meet its debt service obligation.

Key rating drivers and their description

Credit strengths

Strong parentage of the Aditya Birla Group – NJL is the jewellery retail venture of the Aditya Birla Group and is among the strategic priorities of the Group to deepen its presence in the consumer retail sector. The company is expected to benefit from the financial strength of the Group along with its experience in consumer retail through the Group's fashion retail operations.

ICRA derives comfort from the Group's capital commitment of ~Rs. 5,000 crore for NJL over the medium term and the company's strong managerial linkages with the Group, as evident from NJL's board of directors comprising senior leadership of the Group. The Group has already infused ~Rs. 274 crore into NJL through equity and compulsorily convertible preference shares till March 31, 2024 and plans to invest additional ~Rs. 1,000 crore in FY2025, which reflects the Group's willingness to support the company and provides comfort.

Experienced leadership team – The senior leadership of the retail businesses of the Aditya Birla Group have been inducted in NJL's board of directors. Moreover, the company's top management comprises senior executives with long experience in consumer businesses including jewellery retail industry (mostly heading the company's business functions) and executives from the Group's other businesses (mostly heading the company's corporate functions) to create a balance between industry insights and the Group's culture and policies. ICRA expects the experienced leadership team to provide a strong foundation and aid NJL in executing its business plans.

Favourable long-term growth prospects for organised jewellers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation over the recent years, have accelerated the shift in the market share from unorganised to organised jewellers. The industry tailwind is likely to benefit the organised jewellers over the medium term.

Credit challenges

Substantial investment requirements for a new retailer and exposure to execution risks – Being a new venture, NJL is exposed to execution risks and needs substantial initial capital for setting up a jewellery chain along with significant investment towards creating and establishing its brand. Any significant delay in operationalisation of the planned stores or slower-than-expected ramp-up in revenue from the stores could strain the company's liquidity position and impact its credit profile. The risks are, however, mitigated to an extent by the company's strong parentage and experienced management team and capital commitment by ABG.

Exposed to intense competition and regulatory risks – 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. The company remains exposed to regulatory changes, which may impact its business performance. Additionally, the sector is highly fragmented and is exposed to intense competition from large organised and unorganised players, which limits the pricing flexibility of retailers to an extent.

Liquidity position: Adequate

NJL's liquidity position is expected to remain adequate, supported by capital commitments from the ABG. The company is likely to have sizeable capital requirement over the near-to-medium towards working capital, capital expenditure on planned stores and operating losses, which are expected to be funded by capital infusion from the Group. The Group has invested ~Rs. 274 crore in NJL till March 31, 2024 and is expected to infuse further funds (~Rs. 1,000 crore planned for FY2025) as per business requirements. The company has also tied up bank facilities, including Rs. 1,200-crore working capital and Rs. 50-crore term loans, so far, which provide liquidity comfort. ICRA also derives comfort from the willingness of ABG to extend support to NJL in the initial years of its operations owing to its strategic importance to the Group.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a healthy scale-up in the company's revenue while achieving cash breakeven and maintaining a healthy liquidity position.

Negative factors – Pressure on the ratings could arise in case of a further delay in operationalisation of the planned stores or slower-than-expected ramp-up in revenue from the stores, translating into extended losses and substantial pressure on the company’s capital structure and liquidity. Any weakening in linkages with the Group or a deterioration in the Group’s credit risk profile could also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Jewellery - Retail](#)
Parent/Group support	**Parent Group: Aditya Birla Group** ICRA expects the Aditya Birla Group to be willing to extend need-based financial support to Novel Jewels Limited to fund its initial growth capital, operating losses and debt servicing obligations based on the capital commitments by its leadership, owing to its strategic significance to the Group.
Consolidation/Standalone	Standalone

About the company

Novel Jewels Limited (NJL) was incorporated on September 12, 2022 as the jewellery retail arm of the Aditya Birla Group. The company is a subsidiary of Essel Mining and Industries Limited (rated [ICRA]A1+), which holds a ~54% equity stake (on a fully diluted basis, as on March 31, 2024), while the balance is held by two other promoter group companies. NJL’s jewellery retail operation is now expected to commence from Q2 FY2025 vis-à-vis March-April 2024 planned earlier.

Key financial indicators (audited)

Standalone	FY2023	FY2024*
Operating income	-	-
PAT	-2	-59
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	-9.0	1.2
Total debt/OPBDIT (times)	-9.3	-3.4
Interest coverage (times)	-3.1	-18.9

*Source: Company, 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

Note: The company’s operating revenue generation did not commence till FY2024; Total outside liabilities include lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 16, 2024	Feb 01, 2024	Dec 01, 2023	-	-
1	Term Loan	Long term	50.00	7.41	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
2	Fund-based/non-fund based - Working Capital Facilities	Long term	1,200.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
3	Unallocated Limits	Long term/ short term	200.00	NA	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term Loan	Simple
Long-term – Fund-based/non-fund based - Working Capital Facilities	Simple
Long-term/short-term – 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	**Term Loan**	FY2024	NA	FY2029	50.00	[ICRA]A- (Stable)
NA	**Fund-based/non-fund based - Working Capital Facilities**	NA	NA	NA	1,200.00	[ICRA]A- (Stable)
NA	**Unallocated Limits**	NA	NA	NA	200.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

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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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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