August 02, 2024

Thangamayil Jewellery Limited: Long-term rating upgraded to [ICRA]A, outlook revised to Stable from Positive; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	95.00	95.00	[ICRA]A, upgraded from [ICRA]A-, outlook revised to Stable from Positive
Long-term – Fund-based Limits – Working Capital Facilities	257.00	257.00	[ICRA]A, upgraded from [ICRA]A-, outlook revised to Stable from Positive
Long-term – Interchangeable Limits	(153.00)	(153.00)	[ICRA]A, upgraded from [ICRA]A-, outlook revised to Stable from Positive
Short-term – Fund-based Limits	254.00	254.00	[ICRA]A2+, reaffirmed
Short-term – Interchangeable Limits	(257.00)	(257.00)	[ICRA]A2+, reaffirmed
Total	**606.00**	**606.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade of Thangamayil Jewellery Limited (TMJL) considers a steady growth in its turnover over the past few years, which ICRA expects to continue in the medium term, given the store expansion planned by the entity. ICRA also notes the gradual improvement in the overall profits and cash accruals from business over the past two years, which positively impacted the coverage metrics of the company, and ICRA doesn't expect any decline in the operating profit margin (OPM) in the current fiscal.

The ratings continue to favourably factor in the long experience of the promoters in the retailing business of jewellery made of gold, silver, platinum and diamond, along with TMJL's long presence and strong brand recall in Tamil Nadu. In view of the planned expansion of its retail outlets, the top line of the company is likely to register a steady growth in the medium term. The RoCE of the company is likely to remain at a healthy level in the near-to-medium term. TMJL's comfortable financial risk profile, as reflected by adequate coverage metrics, also supports the ratings. The ratings further consider the favourable long-term growth prospects for organised jewellers with an accelerated shift in the market share from unorganised jewellers over the medium term, which is likely to benefit TMJL.

The ratings, however, are constrained by the vulnerability of TMJL's earnings to volatility in gold prices, an intense competition on the back of a fragmented industry structure and aggressive store expansion plans undertaken by large players, along with the inherent regulatory risks associated with the jewellery business and a cautious lending environment. The ratings continue to factor in the high working capital intensive nature of operations, necessitated from large inventory holding due to its nature of business, which results in higher dependence on working capital loans. The ratings are also impacted by the high geographical and product concentration risks as TMJL derives all its revenue from Tamil Nadu and ~90% of its revenue comes from gold jewellery.

The Stable outlook on the long-term rating reflects ICRA's opinion that TMJL's operational and financial performances will continue to benefit from its established market position, increased focus on expansion into new markets and generation of adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Established market position along with strong brand recognition in Tamil Nadu – TMJL operates through 59 company-owned and company-operated stores and commands a strong market presence in the tier-II and tier-III cities of Tamil Nadu along with a dominant position in the Madurai market. The promoters' extensive experience in the jewellery retail industry and TMJL's healthy brand recall in most of its key operating regions support its operating performance, as demonstrated by the healthy revenue growth over the past two years. The company's established market position is also reflected by the healthy scale-up of some of its new stores in new markets in the recent past. ICRA expects TMJL's strong brand equity to aid in its revenue growth in existing and new markets over the medium term, as reflected by its revenue growth of ~27% on a YoY basis to Rs. 1,220 crore in Q1 FY2025. The company has planned to open eight mid-level retail outlets across Tamil Nadu and one flagship large outlet in Chennai in FY2025.

Steady growth in top line, thereby increasing profits and cash accruals from business – The operating income of the company witnessed a steady growth over the past few years, primarily driven by the increase in gold price, although volume contribution played a significant role towards the growth trajectory. The company has been adding new stores over the past few years, which also augmented revenue growth. Moreover, increase in revenue from non-gold jewellery, which accounted for ~8% of its revenue in FY2024, has also supported its top line growth over the past two years. Improved margins amid a growing scale of operations resulted in increasing profits and cash accruals from the business in the last two fiscals. In view of the planned addition of retail outlets and a strong brand equity of the company, the overall volume of sales in FY2025 is likely to grow, though the same may moderate on a YoY basis. However, the company's operating income is likely to rise by 16-18%, on a YoY basis, in FY2025 on the back of a sharp increase in gold price. The overall profits and cash accruals from the business are also projected to increase in FY2025 primarily driven by growing scale of operations.

Comfortable debt protection metrics – The capital structure of the company has remained conservative with a gearing and TOL/TNW of 1.1 times and 2.0 times, respectively as on March 31, 2024. With a steady rise in the profits and cash accruals, the coverage indicators of the company improved over the past two years and stood at a comfortable level. In view of sizeable profits and cash accruals from the business, ICRA expects the company to register a gradual improvement in the capital structure and coverage indicators, going forward.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry in the recent years, aimed at improving transparency and standardisation, have accelerated the shift in the market share from the unorganised players to organised ones. The industry tailwinds are expected to benefit the organised jewellery retailers like TMJL over the medium term, supported by its expanding retail presence. Also, the recent announcement of reduction in customs duty on gold in the Union Budget has led to a reduction in the gold prices, which is likely to give a much-needed fillip to the domestic gold demand. The decision is also likely to curb smuggling and consequently drive growth in the organised jewellery sector.

Credit challenges

Performance exposed to intense competition and regulatory risks in retail jewellery segment – Jewellery retail business is very competitive, with a large share of unorganised trade. This coupled with robust store expansions by larger retailers into tier-2 and tier-3 cities in the recent years has intensified competition and limited the pricing flexibility. TMJL remains exposed to intense industry competition with limited pricing flexibility and presence of a large number of organised and unorganised players, which would keep its margins under check. Further, the share of studded jewellery remains low, in line with the consumer preferences in the state in which TMJL operates, which limits its profitability to an extent. The OPM of the company, however, rose to 5.6% in FY2024 from 4.0% in FY2022, due to an increased margin on sales and control over overheads. The net profit margin (NPM) followed suit and improved to 3.2% in FY2024 from 1.8% in FY2022. Accordingly, the RoCE improved and remained at a healthy level of around 20% in FY2024. ICRA expects the OPM of the company to remain at around 6% in the current fiscal. The RoCE of the company is also estimated to remain at a healthy level, going forward. The jewellery retail industry has witnessed increased regulatory intervention in the recent years, like restrictions on bullion imports, limited access to gold metal loans, limitation on jewellery saving schemes, mandatory PAN disclosure on transactions above a threshold limit, implementation of the Goods and Service Tax etc., which impacted the operating environment and consequently the performance of the jewellers. Increasing supervision and cautious lending environment further restricted fund flows to the sector. However, TMJL enjoys a healthy relationship with banks and has been able to increase its working capital limits on a timely basis.

Exposure to high geographical concentration risk – The company remains dependent on the Tamil Nadu market, with all its showrooms located within the state (with higher concentration in the Madurai market). This exposes its revenue and earnings to fluctuations in demand within the state. While ICRA notes that the company has been entering new markets within the state to increase its market share, its revenue is likely to remain concentrated in Tamil Nadu over the medium term. TMJL's earnings and profitability remain exposed to volatility in gold prices. The risk is, however, partly mitigated by TMJL's defined inventory hedging policy wherein ~89% of its inventory in FY2024 (~76% in FY2023) was hedged through gold metal loans, customer advances and financial derivatives.

High working capital intensive nature of operations – Jewellery retailing business is highly working capital intensive in nature, given the need to display varied designs of jewellery to its customers. TMJL generally maintains an inventory of 3-4 months on an average, across its stores, depending on the footfall and the stock holding surge during the festive season. However, net working capital relative to the operating income of the company improved to 20% in FY2024 from 24% in FY2023, largely supported by increased deposits from the customers under jewellery savings scheme. With a large stockholding requirement, dependence on working capital loans remains high. The company's ability to manage its inventory levels and liquidity position, while increasing the scale will be the key determinants of its financial risk profile.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/ flooding in the operating regions, impacting its jewellery stores. Additionally, possibility of rural demand for jewellery moderating during periods of crop loss, caused by physical climate change, also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including a shift towards less gold-intensive daily/ fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, given the skilled nature of work.

Liquidity position: Adequate

The company generated positive cash flow from operations in the last year, despite a sizeable increase in the scale of operations, primarily due to a decline in the working capital intensity of operations. A sizeable growth in the top line expected in FY2025 via addition of new stores would lead to higher inventory holding and is likely to impact the cash flow from operations, and the same is estimated to turn negative in FY2025. The average fund-based working capital utilisation of the company stood at a moderate level of 66% during the last twelve months, ended in May 2024, leaving adequate room for future working capital requirement. Moreover, the company has enhanced its working capital limits in the recent past, which would support its liquidity. The company has long-term debt repayment obligations of around Rs. 66 crore, including lease liabilities, in the current fiscal. TMJL is expected to generate cash accruals of more than Rs. 145 crore in FY2025, which along with incremental customer advances would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and moderate capital expenditure of around Rs. 46 crore. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of TMJL if there is a sustained healthy growth in revenues and earnings along with an improvement in the inventory turnover, which would strengthen its credit metrics, return indicators and liquidity position.

Negative factors – ICRA may downgrade the ratings of TMJL if there is a sharp deterioration in the company's earnings or an elongation in its working capital cycle, adversely impacting its debt protection metrics and liquidity position. Specific credit metric that may trigger ratings downgrade includes an interest coverage of less than 4.5 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	The ratings are based on the standalone financial statements of the company

About the company

Thangamayil Jewellery Limited (TMJL) is a jewellery retailer based in Madurai, Tamil Nadu. The company was initially established as a proprietorship firm by Late Baluswamy Chettiar in 1947. The company went public in January 2010, and is listed on BSE and NSE. At present, the company is managed by Mr. Balaram Govind Das, Mr. Ba. Ramesh and Mr. N. B. Kumar, the sons of the promoter. The company is involved in retailing of gold/ silver/ diamond/ platinum and various studded jewellery and operates through 59 showrooms, as of July 2024, spread across Tamil Nadu.

Key financial indicators (audited)

TMJL, Standalone	FY2023	FY2024	Q1 FY2025*	Q1 FY2024*
Operating income	3,153.1	3,827.3	1,220.3	958.9
PAT	80.5	123.3	56.6	58.6
OPBDIT/OI	4.9%	5.6%	7.4%	9.5%
PAT/OI	2.6%	3.2%	4.6%	6.1%
Total outside liabilities/Tangible net worth (times)	2.2	2.0	-	-
Total debt/OPBDIT (times)	3.7	2.5	-	-
Interest coverage (times)	4.4	5.9	10.0	9.1

*Source: Thangamayil Jewellery Limited, ICRA Research; * Unaudited 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	Current rating (FY2025)			Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023			Date & rating in FY2022
				Aug 2, 2024	Mar 26, 2024	Oct 4, 2023	Jul 3, 2023	Aug 25, 2022	Jun 3, 2022		Jan 21, 2022
1	**Fixed Deposit**	Long Term	95.00	**[ICRA]A (Stable)**	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)		MA+ (Stable)
2	**Working Capital Facilities**	Long Term	257.00	**[ICRA]A (Stable)**	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)		[ICRA]A- (Stable)
3	**Interchangeable Limits**	Long Term	(153.00)	**[ICRA]A (Stable)**	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-		-
4	**Fund-based Limits**	Short-term	254.00	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		-
5	**Interchangeable Limits**	Short-term	(257.00)	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		[ICRA]A2+
6	**Unallocated Limits**	Long Term/ Short-term	-	**-**	-	[ICRA]A- (Positive)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	-		-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposit	Very Simple
Long-term fund-based – Working Capital Facilities	Simple
Long-term – Interchangeable Limits	Simple
Short-term fund-based Limits	Simple
Short-term – Interchangeable Limits	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 Deposit	-	-	-	95.00	[ICRA]A (Stable)
NA	Cash Credit 1	-	-	-	95.00	[ICRA]A (Stable)
NA	Cash Credit 2	-	-	-	25.00	[ICRA]A (Stable)
NA	Cash Credit 3	-	-	-	137.00	[ICRA]A (Stable)
NA	Long-term Interchangeable Limits 1	-	-	-	(25.00)	[ICRA]A (Stable)
NA	Long-term Interchangeable Limits 2	-	-	-	(75.00)	[ICRA]A (Stable)
NA	Long-term Interchangeable Limits 3	-	-	-	(13.00)	[ICRA]A (Stable)
NA	Long-term Interchangeable Limits 4	-	-	-	(20.00)	[ICRA]A (Stable)
NA	Long-term Interchangeable Limits 5	-	-	-	(20.00)	[ICRA]A (Stable)
NA	Short-term Fund-based Limits 1	-	-	-	50.00	[ICRA]A2+
NA	Short-term Fund-based Limits 2	-	-	-	75.00	[ICRA]A2+
NA	Short-term Fund-based Limits 3	-	-	-	29.00	[ICRA]A2+
NA	Short-term Fund-based Limits 4	-	-	-	50.00	[ICRA]A2+
NA	Short-term Fund-based Limits 5	-	-	-	50.00	[ICRA]A2+
NA	Short-term Interchangeable Limits 1	-	-	-	(95.00)	[ICRA]A2+
NA	Short-term Interchangeable Limits 2	-	-	-	(25.00)	[ICRA]A2+
NA	Short-term Interchangeable Limits 3	-	-	-	(137.00)	[ICRA]A2+

Source: Thangamayil Jewellery Limited

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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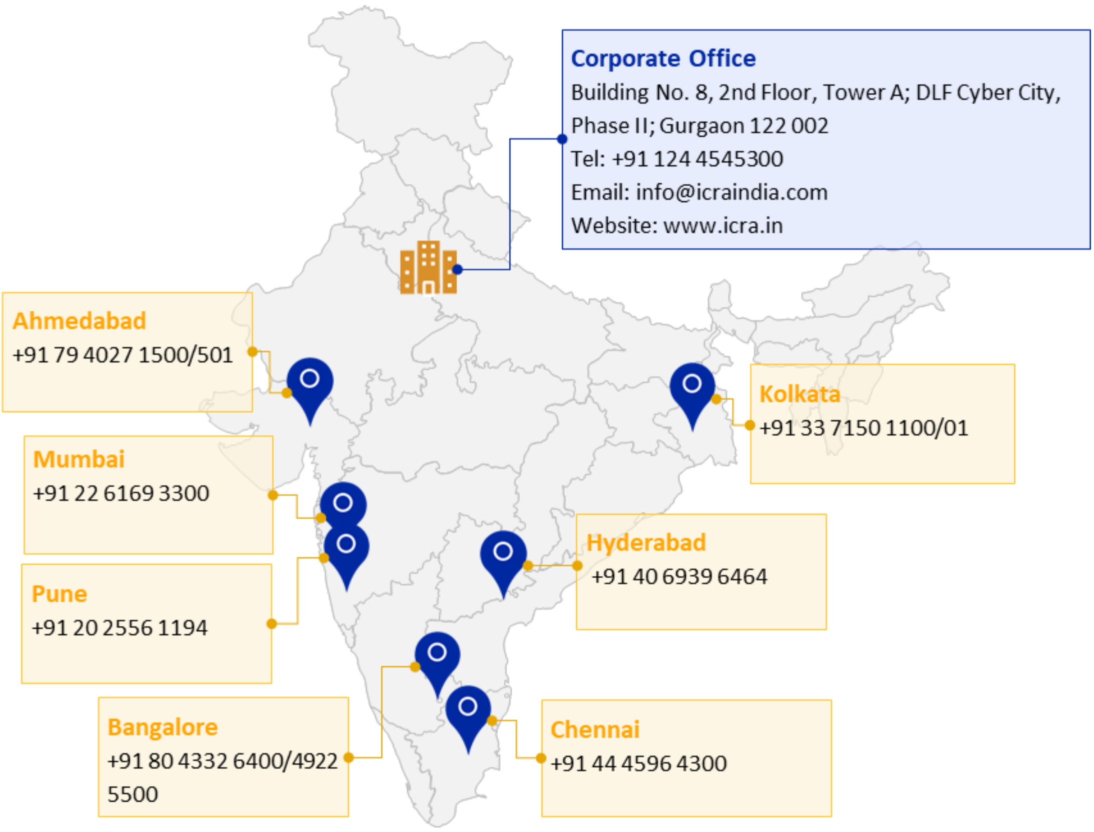

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