

October 30, 2024

AVR Swarnamahal Jewelry Limited: Ratings reaffirmed; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	280.00	303.68	[ICRA]A- (Stable), reaffirmed and outlook revised to Stable from Positive
Long term fund based – Term Loan	37.70	16.42	[ICRA]A- (Stable), reaffirmed and outlook revised to Stable from Positive
Fixed Deposit Programme	50.00	50.00	[ICRA]A- (Stable), reaffirmed and outlook revised to Stable from Positive
Short-term Fund-based Interchangeable Limits#	(167.50)	(90.00)	[ICRA]A2+, reaffirmed
Short-term Non-fund Based	2.40	-	-
Total	370.10	370.10	

* Instrument details are provided in Annexure – I, #sublimit of cash credit facility

Rationale

The revision in the long-term rating outlook of AVR Swarnamahal Jewelry Limited (AVR) to Stable from Positive factors in the drop in the company's profitability in FY2024 over the previous fiscal, which along with increased debt level, adversely impacted the debt protection metrics. While increasing dependence on external debt (to fund the additional working capital requirement, which would arise due to increasing gold prices and addition of stores) is expected to restrict significant improvement in debt coverage indicators, healthy scale-up of operations is likely to support the overall operational and financial performance of the company in the medium term.

The ratings, continue to draw comfort from AVR's steady scale of operations and established market position in Tamil Nadu, especially in the Salem region. The ratings also consider the promoter's extensive experience in the industry, and the company's comfortable financial profile, characterised by a comfortable capital structure and adequate coverage metrics. In FY2024, the company's revenues grew by ~14% on a YoY basis to ~Rs. 2,561 crore, supported by a sharp rise in gold prices. However, healthy demand from its loyal customer base in the southern region ensured no volume decline in FY2024 on a YoY basis. The trend continued in the first half of the current fiscal as the company achieved revenues of Rs. 1,408 crore in H1 FY2025, a YoY growth of ~9%. The reduction in customs duty on gold by 9%, announced in the last Union Budget, is also likely to curb illicit imports and trade of gold and consequently drive growth in the organised jewellery sector, including AVR.

The ratings continue to factor in the vulnerability of AVR'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. While AVR is exposed to geographical concentration risk with 50% of its revenues in FY2024 derived from the Salem region, AVR's plans to enter new markets like Chennai, Coimbatore and Trichy are expected to mitigate the regional concentration risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectations that AVR's operational and financial performances will continue to benefit from its established market position as a reputed retailer of gold jewellery and the planned expansion mainly through the asset-light franchisee model. The same would lead to a gradual improvement in its capitalisation and coverage metrics.

Key rating drivers and their description

Credit strengths

Established market position along with strong brand recall in the Salem region – AVR has an established retail presence in the northern part of Tamil Nadu, especially in the Salem market, for over eight decades. The vast experience of the promoters in the gold jewellery industry, coupled with its focus on providing ornament designs that suit the specific tastes and preferences of the customers, has helped it establish the strong brand of AVR and capture a loyal customer base, which has driven its revenue growth through repeat purchases. Its strong brand equity is illustrated by the steady revenue growth witnessed by AVR in the region, despite the entry of many large regional chains in recent years. The company posted revenues of Rs. 2,561 crore in FY2024. Healthy demand from its loyal customer base resulted in a YoY growth of 9% in H1 FY2025, with the company registering revenues of Rs. 1,408 crore. AVR's growth is expected to be driven by increasing offtake from franchisee sales and sales from new stores in addition to healthy demand from the existing stores in the near-to medium term. In FY2025, the top-line of the company is expected to grow by 18-20%.

Comfortable financial profile – In the last five years, AVR's revenues rose at a CAGR of ~12% and the net profit increased at a CAGR of ~17%. While the debt protection metrics moderated in FY2024 due to pressure on margins and increase in external debt (to meet the working capital requirements), it continued to remain comfortable with an interest cover of 3.3 times in FY2024, though the same was below ICRA's expectation. The financial profile of AVR is expected to remain comfortable, supported by its adequate liquidity position and healthy net cash accruals despite partial debt-funded capex.

Favourable long-term growth prospects of organised retailers – Increasing regulatory restrictions in the jewellery industry, aimed towards greater transparency and standardisation over the years, have accelerated the shift in the market share from unorganised to organised jewellers. The industry tailwind would continue to benefit organised jewellers like AVR, going forward. The Government has reduced customs duty on gold by 9% from July 24, 2024, which is likely to curb illicit imports and trade of gold, in turn benefitting the organised jewellery sector.

Credit challenges

Earnings exposed to geographical concentration risk – The company faces relatively higher geographical concentration risk as its main areas of operations are Salem and its neighboring markets, with Salem continuing to contribute ~50% to the revenues in FY2024. Geographical concentration has limited AVR's revenue growth over the years due to the entry of various leading jewellery brands. The company has expanded to other key markets like Erode and Bengaluru in the last decade and has plans to expand in other key markets in Tamil Nadu in the near-to-medium term. The company has further planned to enter new markets like Chennai, Coimbatore and Trichy. These are expected to mitigate the regional concentration risk to an extent.

Modest operating profitability – AVR's margins have remained modest over the years because of low contribution from the high-margin studded jewellery segment and minimal pricing flexibility due to intense competition. Besides, the profitability and return indicators moderated in FY2024 due to the higher share of franchisee income, which is a lower margin accretive business, and expensive jewellery schemes. The net profitability levels got further impacted due to the sizeable commodity hedging loss booked by the company. Further, its earnings remain exposed to volatile gold prices, as seen in the past, with the risk mitigated to some extent by the hedging of ~50% of the stock levels through metal loans, customer advances and financial derivatives. The operating profit margins are expected to gradually improve in the medium term with steady scale-up of operations.

Performance exposed to intense competition and regulatory risks in jewellery segment – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restriction on bullion imports and metal loan funding, along with mandatory PAN disclosure on transactions above a threshold amount are some of the regulations that have impacted the business prospects in the past. AVR remains exposed to changes in regulations that may impact its business profile. Further, the jewellery retail business is highly

fragmented and is exposed to intense competition from organised and unorganised players. This limits the pricing flexibility enjoyed by retailers to an extent.

Liquidity position: Adequate

AVR's liquidity position is expected to remain adequate. AVR's cash flow from operations turned negative in FY2024, primarily due to an increase in the working capital requirement to support the revenue growth and an overall increase in the working capital intensity of operations. The cash flow from operations is likely to remain negative in the medium term, at least, due to the likely increase in the working capital requirement to support the revenue growth. The average fund-based working capital utilisation of the company stood at a high level during the last twelve months, ending in September 2024. Nonetheless, the company has been able to enhance its working capital limits in a timely manner, thus supporting its liquidity. It has also proposed further enhancement in the working capital limit by Rs. 100 crore, which once sanctioned, would support its liquidity. The company has long-term debt repayment obligations of around Rs. 18 crore, including lease liabilities, in the current fiscal. AVR had unencumbered cash/ bank balance of Rs. 41 crore as on March 31, 2024. The company has received a term loan sanction of Rs. 30 crore to partially fund the capex requirements. AVR is expected to generate cash accruals of more than Rs. 70 crore in FY2025 and would improve gradually, going forward, which would part fund the additional working capital requirement, long-term debt repayment obligations and capital expenditure of around Rs. 44 crore.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of AVR if the company is able to register a healthy growth in revenues and earnings, strengthening its liquidity position.

Negative factors – ICRA may downgrade the ratings of AVR 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 the liquidity position. Specific credit metric that could lead to rating downgrade include interest coverage of less than 3.0 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	The ratings are based on the standalone financial statements of the company

About the company

AVR was incorporated in August 2009 and acquired the jewellery businesses of the AVR family-run firms, namely AVR Swarnamahal and Swarnapuri AVR. The company is involved in the business of gold jewellery retailing and has 23 operational showrooms at present, with 17 in Tamil Nadu, 5 in Bengaluru and 1 in Puducherry. It has a leading market share in Salem and plans to venture in other key markets in Tamil Nadu in the near term.

Key financial indicators (audited)

SGL, Standalone	FY2023	FY2024
Operating income	2,241.7	2,561.0
PAT	53.0	44.3
OPBDIT/OI	4.7%	4.1%
PAT/OI	2.4%	1.7%
Total outside liabilities/Tangible net worth (times)	1.9	1.8
Total debt/OPBDIT (times)	3.0	3.9
Adjusted Total debt/OPBDIT (times)*	2.6	3.5
Interest coverage (times)	3.7	4.2
Adjusted Interest coverage (times)*	4.3	4.9

Source: AVR Swarnamahal Jewelry Limited, 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

* Adjusted for lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025) Amount rated (Rs. crore)	Chronology of rating history for the past 3 years				
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			Oct 30, 2024	Oct 31, 2023	Oct 20, 2022	Oct 13, 2022	Sep 16, 2021
1 Cash Credit	Long Term	303.68	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Term Loans	Long Term	16.42	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Fund Based Interchangeable limits	Short Term	(90.00)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4 Fixed Deposit Programme	Long Term	50.00	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5 Non fund based limits	Short Term	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Cash Credit	Simple
Long term fund based – Term Loan	Simple
Fixed Deposit Programme	Very Simple
Short-term Fund-based 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 Programme	-	8.0%-9.0%	-	50.00	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	303.68	[ICRA]A- (Stable)
NA	Fund Based Interchangeable Limits#	-	-	-	(90.00)	[ICRA]A2+
NA	Term Loans	FY2023	-	FY2028	16.42	[ICRA]A- (Stable)

Source: Company Data, #submit of cash credit facility

[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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