April 9, 2025

AVR Swarnamahal Jewelry Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Fixed Deposit Programme	50.00	50.00	[ICRA]A- (Stable), reaffirmed
Long-term Fund-based – Term Loans	16.42	44.45	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount
Long-term Fund-based – Cash Credit	303.68	-	-
Short-term Fund-based – Interchangeable#	(90.00)	-	-
Long-term/ Short-term Fund-based – Working Capital Facilities	-	538.00	[ICRA]A- (Stable)/ [ICRA]A2+, assigned
Total	**370.10**	**632.45**	

**Instrument details are provided in Annexure I*

 # Sub-limit of the Cash Credit facility

Rationale

The ratings continue to draw comfort from the increasing scale of operations and established market position of AVR Swarnamahal Jewelry Limited (AVR) 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, ICRA notes that a steep rise in the gold price has adversely impacted the overall sales volume of the company in FY2025 compared to the previous fiscal and a volume degrowth of around 15% is expected on a YoY basis. The company registered a turnover of around Rs. 2,037 crore in 9M FY2025 vis-à-vis around Rs. 1,909 crore in 9M FY2024, led by rising gold prices. The profitability of AVR witnessed a moderation in FY2024 over the previous fiscal, which along with increased debt level, adversely impacted the debt protection metrics. However, in view of a redefined jewellery purchase scheme (JPS) with a reduced level of discounts offered on the value addition on jewellery, the operating margin of AVR improved in FY2025 compared to FY2024. Despite a likely improvement in the profitability of the company, 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 an improvement in debt coverage indicators in the near term at least. The ratings further consider the favourable long-term growth prospects of organised jewellers with an accelerated shift in the market share from unorganised to organised jewellers, which is likely to benefit 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 jewelleries 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 retail gold jewellery business, 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 the recent years. The company posted revenues of Rs. 2,561 crore in FY2024. However, a steep rise in the gold price has adversely impacted the overall volume of sales of the company in FY2025 compared to the previous fiscal. The company registered a turnover of around Rs. 2,037 crore in 9M FY2025 vis-à-vis around Rs. 1,909 crore in 9M FY2024 driven by rising gold prices despite a volume degrowth. AVR's revenue growth is expected to be driven by increasing off-take from franchisee sales and from new stores, in addition to healthy demand from the existing stores in the near-to medium term. The top line of the company is expected to marginally grow by 4-5% in FY2025 and around 20-22% in FY2026 on a YoY basis.

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 would continue to remain comfortable, supported by its adequate liquidity position and healthy cash accruals despite partial debt-funded capex. ICRA does not expect any major deterioration in the capital structure and coverage indicators of the company in the near term.

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 neighbouring 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 been planning 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 purchase schemes (JPS). However, in view of a redefined JPS with a reduced level of discounts offered on the value addition on jewellery, the operating margin of AVR improved to 5.0% in H1 FY2025 from 4.1% in FY2024. Further, its earnings remain exposed to volatile gold prices, as seen in the past, with the risk mitigated to an extent by the hedging of ~65% of the inventory through gold metal loans, customer advances and financial derivatives in FY2025. The operating profit margins are expected to remain in the range of 4.5-5.0% 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

The company generated negative cash flow from operations in FY2024, primarily due to a sizeable scale-up of operations. Despite a marginal growth in the top line expected in FY2025, addition of new stores and elevated gold prices would lead to higher inventory holding and is likely to impact the cash flow from operations. The average fund-based working capital utilisation of the company stood at a higher level of around 90% during the last 10 months, ended in January 2025. However, the company has enhanced its working capital limits in the recent past, which would support its liquidity. AVR had unencumbered cash/ bank balance of around Rs. 20 crore as on September 30, 2024. The company has started drawing a term loan of Rs. 30 crore towards partially funding the capex requirements for setting up its administrative building. The company has long-term debt repayment obligations of Rs. 20-25 crore, including lease liabilities, over the next two years. AVR is expected to generate cash accruals of more than Rs. 70 crore in FY2025 and Rs. 80-90 crore in FY2026, 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. ICRA expects the overall liquidity position of the company to remain adequate, going forward. As the company's business is expected to record a sizeable growth in the medium term, efficient management of working capital requirement would remain crucial, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings 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 ratings 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 Swarnamahal Jewelry Limited (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 operates in Tamil Nadu, Karnataka, and Puducherry. The company is involved in retailing of gold/ silver/ diamond/ platinum and various studded jewellery and operates through 27 showrooms, as of March 2025, spread across the southern region of India. 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)

AVR, Standalone	FY2023	FY2024	H1 FY2025*
Operating income	2,241.7	2,561.0	1,416.0
PAT	53.0	44.3	-
OPBDIT/OI	4.7%	4.1%	5.0%
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	-
Interest coverage (times)	4.2	3.3	-

*Source: AVR Swarnamahal Jewelry 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

	Current rating (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Apr 9, 2025	Date	Rating	Date	Rating	Date	Rating
Fixed Deposit Programme	Long term	50.00	**[ICRA]A- (Stable)**	Oct 30, 2024	[ICRA]A- (Stable)	Oct 31, 2023	[ICRA]A- (Positive)	Oct 20, 2022	[ICRA]A- (Stable)
								Oct 13, 2022	[ICRA]A- (Stable)
Term Loans	Long term	44.45	**[ICRA]A- (Stable)**	Oct 30, 2024	[ICRA]A- (Stable)	Oct 31, 2023	[ICRA]A- (Positive)	Oct 20, 2022	[ICRA]A- (Stable)
								Oct 13, 2022	[ICRA]A- (Stable)
Cash Credit	Long term	-	-	Oct 30, 2024	[ICRA]A- (Stable)	Oct 31, 2023	[ICRA]A- (Positive)	Oct 20, 2022	[ICRA]A- (Stable)
								Oct 13, 2022	[ICRA]A- (Stable)
Fund-based – Interchangeable	Short term	-	-	Oct 30, 2024	[ICRA]A2+	Oct 31, 2023	[ICRA]A2+	Oct 20, 2022	[ICRA]A2+
								Oct 13, 2022	[ICRA]A2+
Non-fund based – Working Capital Facilities	Short term	-	-		-	Oct 31, 2023	[ICRA]A2+	Oct 20, 2022	[ICRA]A2+
								Oct 13, 2022	[ICRA]A2+
Fund-based – Working Capital Facilities	Long term/ Short Term	538.00	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Fixed Deposit Programme	Very Simple
Long-term fund-based – Term Loans	Simple
Long-term/ Short-term fund based – Working Capital Facilities	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	-	-	-	50.00	[ICRA]A- (Stable)
NA	Term Loan 1	FY2023		FY2028	14.45	[ICRA]A- (Stable)
NA	Term Loan 2	FY2025	-	FY2030	30.00	[ICRA]A- (Stable)
NA	Fund based – Working Capital Facilities 1	-	-	-	80.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Fund based – Working Capital Facilities 2	-	-	-	198.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Fund based – Working Capital Facilities 3	-	-	-	160.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Fund based – Working Capital Facilities 4	-	-	-	25.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Fund based – Working Capital Facilities 5	-	-	-	75.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: AVR Swarnamahal Jewelry 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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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.

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