

October 12, 2021

## Bhima Jewellery Madurai: [ICRA]A- (Stable); assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	20.00	[ICRA]A- (Stable); assigned
<b>Total</b>	<b>20.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

For arriving at the rating, ICRA has taken a consolidated view of Bhima Jewellery Madurai (BJM) and other jewellery entities operating in the Group (collectively referred to as the Bhima Trivandrum Group), given the common management and strong operational and financial linkages among the entities. Details of various entities operating in the Bhima Trivandrum Group, which have been consolidated, are given in [Annexure 2](#).

The assigned rating reflects the established market position of the Bhima Trivandrum Group in the jewellery retail markets of Kerala and Tamil Nadu. The rating also considers the promoter's extensive experience in the industry, comfortable financial profile characterised by a conservative capital structure and adequate coverage metrics. Its operational and financial performances are likely to remain consistent in the coming quarters, driven by its improving business diversification and favourable demand conditions. The Group's operating performance has witnessed a steady improvement in the recent fiscals. The Group recorded a consistent growth in revenues and earnings on the back of the strong Bhima brand, with an established market position, resulting in a better-than-industry average inventory turnover. Focused marketing initiatives and favourable gold prices, resulting in inventory gains, also supported the Group's operating performance. Despite the impact of the pandemic-induced business disruptions in H1 FY2021, the Group's performance improved in H2 FY2021, owing to recovery in demand conditions and customer sentiments, resulting in robust sales during the period. A strong second half performance resulted in a YoY revenue growth to around 10% in FY2021, and an improvement in the operating margin to around 7% in the fiscal. In line with the steady operational performance witnessed in H1 FY2022, the Group is likely to register a revenue growth of more than 10% in this fiscal. Growth in the coming quarters would also be supported by the proposed expansion of store network as well as opportunities presented by a large share of unorganised players in the industry. While its margins are likely to witness some correction in the current fiscal with pressure on gold prices witnessed, it is expected to stabilise at around 6% over the coming fiscals on the back of increasing focus on studded jewellery.

The Group's capital structure is conservative, with limited dependence on external debt on the back of a steady growth in earnings and no major expansion undertaken in the recent fiscals. Key capitalisation ratios including the gearing and total outside liabilities to the tangible net worth (TOL/TNW) are expected to remain strong at around 0.3 times and 0.5 times, respectively in FY2022, despite the expected increase in the debt level to fund the ongoing store expansion. Further, key metrics including the interest coverage and total outside liabilities to inventory are likely to remain at comfortable levels of ~7 times and 50%, respectively in FY2022. The ratings consider the Group's moderate operating profitability owing to low contribution from studded jewellery, high working capital requirements in the business, geographical concentration risks and vulnerability of earnings to volatility in gold prices. The ratings also factor in the risks inherent in the partnership firms including the risk of capital withdrawal by the promoters. The other concern areas include financial support extended by the Group in the form of loans and advances to some other companies owned by the promoter family, intense competition in a fragmented industry structure and regulatory risks which had impacted the retailers' performance in the past. ICRA understands that exposure towards other promoter-owned companies is expected to remain at the current levels, and the Group is in the process of converting the partnership firm into a private limited company.

The Stable outlook on the rating reflects ICRA's expectations that the Group's operational and financial performances will continue to benefit from the favourable demand conditions, its established market position, increasing focus on expansion in new markets and studded jewellery along with comfortable capitalisation levels.

## Key rating drivers and their description

### Credit strengths

**Established market position** – The larger Bhima Group enjoys a strong retail presence and long operational track record in the jewellery market of South India for more than nine decades, with the Bhima Trivandrum Group operating in specific large micro markets within Kerala and Tamil Nadu. The vast experience of the promoters in the gold jewellery industry coupled with its focus on providing ornament designs that suit specific tastes and preferences of the customers enabled the Bhima Group to establish its strong brand and capture a loyal customer base. The same drove its revenue growth through repeat purchases across all key markets. Its strong brand equity is illustrated by a steady revenue growth across the states despite entry of many large regional chains in the recent years.

**Comfortable financial profile** – The Group's financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. The coverage metrics improved in FY2021 owing to healthy earnings (driven by the improvement in the operating margins to around 7%). The interest cover increased to ~9 times in the said fiscal despite high working capital requirements in the business (funded through earnings, working capital debt and advances from customers through saving schemes). The coverage indicators are likely to remain comfortable despite the proposed store expansion plans owing to expected steady earnings from operations over the medium term. Further, the financial profile is also supported by its adequate liquidity position and relatively limited dependence on external debt, reflected in the total outside liabilities to inventory ratio of 50%.

**Growth prospects in jewellery segment underpinned by large industry size and fragmented market share** – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency, and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting organised players like the Bhima Group over the years. Further, with the Group's sizeable presence across major markets in Kerala and Tamil Nadu, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support the organised trade and provide better opportunities in the near term.

### Credit challenges

**Earnings exposed to geographical concentration risks** – The Group faces moderate geographical concentration risk as its main areas of operations are limited to Kerala and a few markets in Tamil Nadu, with the top three markets contributing around 65% to revenues in FY2021. The Group's extensive track record, a strong customer base and market share enjoyed in its key markets provide some comfort. The Group has plans for expansion to other key markets in Tamil Nadu and Andhra Pradesh states in the near to medium term to reduce dependence on the existing stores. These expansion plans are expected to diversify the Group's presence across the southern states, mitigating the regional concentration risk to an extent.

**Moderate operating profitability** – The Group's operating margins are expected to remain at moderate levels, constrained by low contribution from the studded jewellery and limited margins / pricing flexibility owing to intense competition in key markets. Further, its earnings remain exposed to volatile gold prices, as seen in the past. The risk is mitigated to an extent by the hedging of 30% of stock levels through metal loans and commodity exchanges.

**Exposure to regulatory risks as well as risks inherent in partnership firms** – Although certain regulatory measures have aided in the shift towards organised trade like the recent hallmarking initiatives, some adverse regulatory developments have impacted the domestic gold jewellery industry in the past. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a certain limit, and imposition of excise duty are some of the regulatory developments that have impacted the industry over the last decade. The Group remains exposed to the risks arising out of any such future

regulatory actions that may impact its business profile. Moreover, given its constitution as a partnership firm, the Group is exposed to discrete risks including the possibility of capital withdrawal by the partners. Any significant capital withdrawal by the partners or incremental funding support to other companies managed by the promoters could adversely impact its credit profile and remain a key monitorable.

### Liquidity position: Adequate

The Group's liquidity position is expected to remain comfortable, supported by steady earnings from operations and unutilised lines of credit enjoyed. Cash buffer, including free cash reserves, liquid investments and unutilised working capital limits together stood at around Rs. 125 crore as on August 15, 2021. The average utilisation of its fund-based limits over the last 12 months ending May 2021 stood at around 57%. While the Group's funding requirements towards capital expenditure is estimated to be limited at ~ Rs. 15 crore in FY2022, it is expected to generate accruals of more than Rs. 130 crore in the fiscal. The incremental working capital requirements to support the expansion are likely to be funded through a mix of surplus earnings and proposed enhancement in the working capital limits in H2 FY2022.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the Group's rating if there is a sustained healthy growth in revenues and improvement in profitability on the back of better business diversification through store expansion and higher share of studded jewellery, while maintaining its comfortable debt protection metrics and liquidity position.

**Negative factors** – The Group's rating could be downgraded if there is a sustained pressure on the operating performance or a deterioration in the working capital intensity, adversely impacting its coverage metrics and liquidity position. Further, any incremental large cash outflow towards other companies in the Group would also exert pressure on the ratings. Specific credit metrics that could lead to a downgrade include the Interest coverage reducing to less than 5.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Gold Jewellery - Retail Industry</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial profile of the Bhima Trivandrum Group, with the details of entities considered for consolidation given in Annexure-2.

### About the company

BJM is a part of the Bhima Trivandrum Group and was incorporated in 2007 and is involved in retail sale of gold, silver and diamond-studded jewellery. The Bhima Group Trivandrum, operating since 1990, is promoted by Dr. Govindan of the Bhima Bhattar family. The Group has eight showrooms, four in Kerala and four in Tamil Nadu. It operates under six partnership entities – Bhima Gold and Diamonds, Adoor, Bhima Jewellers and Diamonds, Attingal, BJM, Bhima Jewellery Salem, Bhima Jewellery Nagercoil, Bhima Jewellery Trivandrum. Its eight showrooms are spread across a total 97,600 square feet. The Group's products include ~95% gold-based jewellery like chains, bangles, antique jewellery, necklaces etc and the balance comprises diamond, platinum, silver, precious stones among others. The Group also has six windmills with a capacity of 600 KW each.

## Key financial indicators

Bhima group (consolidated)*	FY2020	FY2021 (Prov)
Operating Income (Rs. crore)	3263.7	3670.3
PAT (Rs. crore)	110.2	159.1
OPBDIT/OI (%)	5.7%	6.8%
PAT/OI (%)	3.4%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	0.8	0.5
Interest Coverage (times)	4.6	9.4

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Net Debt: Debt adjusted for free cash reserves \* consolidated financials includes financials of Bhima Gold and Diamonds, Adoor, Bhima Jewellers and Diamonds, Attingal, Bhima Jewellery Madurai, Bhima Jewellery Salem, Bhima Jewellery Nagercoil and Bhima Jewellery Trivandrum

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October 12, 2021	-	-	-
1	Fund based/ CC	Long Term	20.00	-	[ICRA]A-(Stable)	-	-	-

Source: Company; Amount in Rs. crore

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund Based/ Cash Credit	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	20.00	[ICRA]A- (Stable)

Source: BJM

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidated approach
Bhima Gold and Diamonds, Adoor	-	Full Consolidation
Bhima Jewellers and Diamonds, Attingal	-	Full Consolidation
Bhima Jewellery Madurai	-	Full Consolidation
Bhima Jewellery Salem	-	Full Consolidation
Bhima Jewellery Nagercoil	-	Full Consolidation
Bhima Jewellery Trivandrum	-	Full Consolidation

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