

November 18, 2021

## Joyalukkas India Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed at [ICRA]A1

### Summary of rating action

Instrument*	Previous rated amount (Rs. Crore)	Current rated amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	81.65	101.65	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Long term / short term - Fund based	1,355.09	1336.00	Long-term rating upgraded to [ICRA]A+ (Stable) from [ICRA]A (Stable); short-term rating reaffirmed at [ICRA]A1
Short Term – Interchangeable	(1,413.00)	(1336.00)	[ICRA]A1; reaffirmed
Long term/Short term – Unallocated	75.26	74.35	Long-term rating upgraded to [ICRA]A+ (Stable) from [ICRA]A (Stable); short-term rating reaffirmed at [ICRA]A1
<b>Total</b>	<b>1512.00</b>	<b>1512.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action reflects better-than expected performance of Joyalukkas India Limited (JIL) in the recent quarters and the anticipated strong revenues and earnings in the current fiscal, driven by its strong market position and favourable demand conditions along with its comfortable financial profile. Post the pandemic-induced business disruptions witnessed in the major part of H1 FY2021, JIL's performance improved for the full year FY2021, driven by its diversified presence, leading presence in the jewellery retail market in South India and recovery in demand conditions and customer sentiments. JIL's strong second half performance in FY2021 helped the company register revenues in line with that of the previous fiscal, compared to a ~47% decline witnessed in H1 FY2021. Favourable gold prices resulting in inventory gains, and cost control measures helped improve the operating margin to 12% in FY2021. In line with the healthy demand scenario witnessed post the second wave of the pandemic, JIL is likely to register a revenue growth of more than 15% in FY2022. Growth over the medium term would be supported by the proposed store expansion planned from FY2023 as well as opportunities presented by a large share of unorganised players in the industry. While ICRA expects JIL's margins to witness some correction by around 100 bps in the current fiscal, given the pressure on gold prices and lack of inventory gains as seen in the preceding fiscals, it is expected to stabilise at around 11% over the medium term. The same would be driven by the focused initiatives undertaken to improve inventory turnover and a healthy share of studded jewellery witnessed.

JIL's credit metrics have improved in the recent quarters on the back of better earnings, which have been utilised towards meeting incremental working capital funding requirements, with external debt levels remaining stable at around Rs. 1,300 crore. With expected strong earnings in the coming quarters, key ratios including interest coverage and total outside liabilities to the tangible net worth are likely to improve to 4.5 times and 1.5 times, respectively in FY2022 and 5 times and 1.2 times, respectively in FY2023. The company also has plans of raising equity in the coming quarters to reduce its debt levels and creditors and meet funding requirements towards store expansion over the medium term. While the same could result in an improvement in its debt-protection metrics from the levels stated above, the extent of improvement would depend on the quantum of funds raised. The ratings also consider the high working capital requirements in the business, intense competition and lack of hedging practices, which exposes its earnings to volatile gold prices. The company is also exposed to regulatory risks, which had impacted the retailers' performance in the past.

The Stable outlook on the rating reflects ICRA's expectations that JIL's performance will continue to benefit from its strong market position, improving business diversification, favourable demand conditions and comfortable capitalisation levels.

## Key rating drivers and their description

### Credit strengths

**Established market position** – JIL is among the largest organised jewellery retailers in India, having established Joyalukkas as a dominant brand among the south Indian jewellery retailers. The company has 85 stores and commands a strong market position in combined Andhra Pradesh (AP), Tamil Nadu, Kerala and Karnataka (cumulatively contributes ~90% of sales), which supported its revenues over the years. The vast experience of the promoters in the gold jewellery industry for three decades coupled with its focus on providing jewellery designs as per specific tastes and preferences of the customers enabled the company to establish its presence across the markets it operates and capture a loyal customer base. 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. Incremental sales from the store expansion envisaged from FY2023, supported by its established brand image, are expected to drive JIPL's footfalls and revenues over the medium term.

**Comfortable financial profile** – JIL's financial profile is characterised by comfortable capitalisation levels and coverage metrics. With healthy earnings generated in FY2021 (driven by stable revenues and operating margins improving to 12%), the coverage metrics have improved with an interest cover of 4.7 times in the said fiscal. Better accruals (post the completion of tax claims settlement) also helped improve its capitalisation levels, with TOL/TNW improving to 1.8 times in FY2021 from 2.5 times in FY2020. This is despite the high working capital requirement in the business, which has been funded through a mix of earnings, working capital debt and advances from customers (saving schemes). Going forward, key credit metrics are likely to witness a steady improvement over the medium term with the expected steady earnings from operations.

**Favourable growth prospects for organised jewellery retailers** – While elevated gold prices and the Covid-19 pandemic impacted discretionary spend and jewellery demand in the recent past, the medium-to-long term outlook, however, remains favourable, supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic divide and growing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency and mandatory hallmarking of gold jewellery from Q2 FY2022 would further support the organised trade and provide better opportunities in the near term. JIL is well positioned to tap the incremental demand, given its reputed brand name and wide presence.

### Credit challenges

**High working capital intensity and intense competition** – Jewellery retailing business is inherently working capital intensive because of the optimal inventory levels required to be maintained across the stores, given the need to display varied designs of jewellery to customers. Also, JIL's modest inventory turnover of around 2.1 times and aggressive expansion over the three-year period ending H1 FY2021 to improve geographical diversification and support growth resulted in increased stocking requirements and hence higher working capital intensity. JIL's ability to improve stock rotation will be critical in improving the working capital intensity. Jewellery retailing business is also highly competitive with presence of many organised and unorganised players, leading to limited pricing flexibility among the players. While JIL has gained from gold price increases in the past on the back of its unhedged inventory, limited pricing flexibility coupled with lack of prudent hedging expose JIL's earnings to fluctuations in gold prices.

**Intense competition and exposure to regulatory risks** – Increased regulatory intervention in the jewellery industry in the past has impacted the demand and supply scenario in the industry. Measures like 80/20 rule and temporary discontinuation on gold on lease to restrict imports, mandatory PAN disclosure requirement for purchases above a threshold limit, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty, demonetisation etc. have affected demand and supply in the past. JIL remains susceptible to any adverse regulatory measures as seen over the last decade.

Further, increasing supervision and a cautious lending environment restricted fund flows to the sector, thus hampering the store expansion plans and liquidity profile of the retailers.

### Liquidity position: Adequate

JIL's liquidity position is expected to remain adequate, supported by steady earnings from operations coupled with unutilised lines of credit enjoyed and adequate free cash balances. Cash buffer, including free cash reserves, liquid investments and unutilised working capital limits together stood at around Rs. 200 crore as on October 30, 2021. The average utilisation of its fund-based limits over the last 12 months ending September 2021 stood at around 88%, given the high inventory holding requirement in the business. While the company's funding requirements towards capital expenditure and debt repayments combined is estimated to be around Rs. 100 crore in FY2022, it is expected to generate accruals of more than Rs. 600 crore in the fiscal which would be utilized towards meeting incremental stock requirements.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company registers a sustained healthy growth in revenues and earnings, and improves its inventory turnover, which in turn would improve its credit metrics and liquidity position. Specific credit metrics that could lead to an upgrade of ratings include TOL/TNW of less than 1.2 times on a sustained basis.

**Negative factors** – Pressure on JIL's ratings may arise if there is a sustained pressure on the operating performance or any deterioration in the working capital cycle, which would adversely impact its coverage metrics and liquidity position. Specific credit metrics that may lead to ratings downgrade include an interest coverage of less than 4.0 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	Standalone

### About the company

JIL, managed by Mr. Alukkas Varghese Joy and family, is among the largest organised jewellery retailers in India with a presence for more than three decades. The company had 85 showrooms in India as on September 30, 2021 of which 72 were in South India and the remaining 13 in non-South markets. The company is particularly concentrated in Tamil Nadu, Kerala, Andhra Pradesh, Telangana and Karnataka. However, it is expanding its presence in non-South markets as well.

### Key financial indicators (audited)

KJIL (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	8,023.8	8,090.8
PAT (Rs. crore)	40.7	471.8
OPBDIT/OI (%)	10.1%	12.0%
PAT/OI (%)	0.5%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	1.8
Total Debt/OPBDIT (times)	2.7	2.1
Interest Coverage (times)	3.6	4.7

Source: Company; 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 (FY2022)			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on October 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019			
					November 18, 2021	August 31, 2020	October 10, 2019	February 22, 2019	September 25, 2018	July 13, 2018	July 06, 2018
1	Term Loans	Long term	101.65	101.65	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund Based – Working Capital Facilities	Long term/Short term	1336.00	-	[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund-based/Non-fund Based (sublimit)	Short term	(1336.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long term/Short term	74.35	-	[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	-	-	-	-	-
5	Non-Convertible Debenture Programme – Proposed	Long term	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

Source: Company; Amount in Rs. Crore

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Fund Based – Working Capital Facilities	Simple
Short term - Interchangeable (sub-limits)	Very Simple
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 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	Term Loans	FY2021	-	FY2023	101.65	[ICRA]A+ (Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	1336.00	[ICRA]A+ (Stable) / [ICRA]A1
NA	Fund-based/Non-fund based (sub limits)	-	-	-	(1336.00)	[ICRA]A1
NA	Unallocated Limits	-	-	-	74.35	[ICRA]A+ (Stable) / [ICRA]A1

Source: JIL

**Annexure-2: List of entities considered for consolidated analysis - Not applicable**

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