October 04, 2023

Thangamayil Jewellery Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Working capital limits	232.00	257.00	[ICRA]A-(Positive); reaffirmed/assigned for enhanced amount
Short-term fund based limits	179.00	179.00	[ICRA]A2+; reaffirmed
Short-term – Interchangeable limits	(232.00)	(257.00)	[ICRA]A2+; reaffirmed/assigned for enhanced amount
Long-term – Interchangeable limits	(78.00)	(78.00)	[ICRA]A-(Positive); reaffirmed
Long-term/short-term – Unallocated Limits	-	75.00	[ICRA]A-(Positive)/[ICRA]A2+; assigned
Fixed Deposit	95.00	95.00	[ICRA]A-(Positive); reaffirmed
Total	**506.00**	**606.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings, with a Positive outlook on the long-term rating, reflects the healthy operating and financial performances of Thangamayil Jewellery Limited (TMJL) in FY2023 and Q1 FY2024 and ICRA's expectations of sustained improvement in performance over the coming quarters, supported by the company's established market position and expanding retail presence in Tamil Nadu. TMJL's revenue grew by ~44% YoY to more than Rs. 3,100 crore in FY2023 on the back of healthy recovery in sales volume, steady increase in gold prices and contribution from new store additions. Its operating margin expanded by ~100 basis points (bps) to 4.9% in FY2023 owing to economies of scale and an increase in the share of higher margin studded jewellery to ~9%. ICRA expects TMJL's revenue to continue to grow at 12-15% p.a. over the medium term, supported by planned store addition, high gold prices and increasing store footfalls due to improving brand visibility. Its operating margin is likely to improve to 5.5-6% over the next 2-3 years, aided by further improvement in product mix and economies of scale. ICRA notes that the revenue growth momentum for TMJL has continued in Q1 FY2024 with the company recording a revenue growth of ~16% on a YoY basis. ICRA also notes the company's plans to enter the Chennai market by opening a flagship store and 3-4 satellite stores in Q1 FY2025, which are expected to further improve TMJL's market position. The company is likely to invest ~Rs. 220 crore, largely towards store inventory, funded through internal accruals and working capital borrowings.

The ratings continue to favourably factor in the healthy brand equity of the company in Tamil Nadu, with a focus on the tier II and III markets, along with a wide retail network of 54 stores as on May 30, 2023. TMJL's comfortable financial risk profile, as reflected by adequate coverage metrics, and the accelerated formalisation of the jewellery retail industry also support the ratings. The ratings also 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, continue to remain constrained 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 intense competition in the industry also limits TMJL's pricing power. The company remains exposed to volatility in gold prices and regulatory risks.

Key rating drivers and their description

Credit strengths

Established market presence in Tamil Nadu; encouraging response in new markets within the state – TMJL operates 54 stores (as on May 30, 2023) 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 supports its operating performance, as demonstrated by the healthy revenue growth of 18% (CAGR) between FY2018 and FY2023. The company's established market position is also reflected by the healthy scale-up of some of its new stores in new markets over the recent past, including its store in Trichy, which recorded a revenue of more than Rs. 150 crore in its first year of operations in FY2023. ICRA expects TMJL's improving brand equity to aid in its revenue growth in existing and new markets over the medium term as reflected by its revenue growth of ~16% on a YoY basis to Rs. 959 crore in Q1 FY2024.

Comfortable financial risk profile – TMJL's financial risk profile is characterised by adequate debt protection metrics and liquidity position backed by steady cash flow from operations, enhancement of sanctioned working capital limits and healthy inflow from its jewellery savings schemes. Its interest cover improved to 4.4 times in FY2023 from 3.3 times in FY2022 and Total debt/OPBDITA improved to 3.7 times in FY2023 from 4.8 times in FY2022. Steady earnings from operations over the medium term are likely to ensure that TMJL's credit metrics remain adequate.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation, over the recent years have accelerated the shift in market share from unorganised players. The industry tailwinds are expected to benefit the organised jewellery retailers like TMJL over the medium term, supported by its expanding retail presence.

Credit challenges

Business concentration risks – TMJL's revenue exhibits high geographical and product concentration risks. 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 the demand scenario and restrictions 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. Further, the share of studded jewellery remains low, in line with the demand profile within the state, which limits TMJL's profitability. However, ICRA notes the management's initiatives to improve the product mix, resulting in the share of non-gold jewellery increasing to ~9% in FY2023. The same is likely to improve going forward, supporting TMJL's margins.

Exposure to volatility in gold prices, regulatory risks and intense competition – 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 ~75% of its inventory is hedged through gold metal loans, customer advances and financial derivatives. 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, mandatory PAN disclosure on transactions above a threshold limit and imposition of excise duty are some of the regulations that have impacted business prospects in the past. TMJL remains exposed to changes in regulations that may impact its business profile. Moreover, 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 jewellers to an extent.

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, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise 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 margins, given the skilled nature of work.

Liquidity position: Adequate

TMJL's liquidity position remains adequate, characterised by free cash reserves and buffer from unutilised working capital limits worth more than Rs. 100 crore as on March 31, 2023 (with commensurate drawing power). The average utilisation of working capital limits stood at 72% in FY2023, which provides comfort. ICRA expects TMJL to generate cash flow from operations worth Rs. 30-40 crore p.a. over the next 2-3 years. Against this, it is likely to have a capex requirement of Rs. 10-15 crore p.a. and repayment obligation worth Rs. 28 crore in FY2024 and Rs. 51 crore in FY2025.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a sustained growth in the scale of operations and profitability while improving the business diversification. Better inventory management and sustained improvement in the capital structure could also lead to a ratings upgrade.

Negative factors – Pressure on the ratings could arise from 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 metrics that could result in a ratings downgrade include reported interest cover below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellery (Retail)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Thangamayil Jewellery Limited (TMJL) is a jewellery retailer based in Madurai, Tamil Nadu. It was established as a proprietorship firm by Mr. Baluswamy Chettiar in 1947. After an initial public offering in January 2010, it is listed on BSE and NSE. The company is managed by Mr. Balaram Govind Das, Mr. Ba. Ramesh and Mr. N. B. Kumar, the sons of the promoter. TMJL has a retail network of 54 stores across Tamil Nadu as on May 30, 2023.

Key financial indicators

TMJL Standalone	FY2022 (audited)	FY2023 (audited)	Q1 FY2024 (unaudited)
Operating income	2,193	3,153	959
PAT	39	80	59
OPBDIT/OI	3.9%	4.9%	9.5%
PAT/OI	1.8%	2.5%	6.1%
Total outside liabilities/Tangible net worth (times)	1.8	2.2	NA
Total debt/OPBDIT (times)	4.8	3.7	NA
Interest coverage (times)	3.3	4.4	9.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; NA – Not available
Note: All ratios as per ICRA calculations. Total debt includes lease liabilities.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		
					Oct 04, 2023	Jul 03, 2023	Aug 25, 2022	Jun 03, 2022	Jan 21, 2022	Mar 24, 2021	Sep 24, 2020	Sep 04, 2020
1	**Working capital limits**	Long-term	257.00	-	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Fund-based limits**	Short-term	179.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	-	-
3	**Interchangeable limits**	Short-term	(257.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4	**Interchangeable limits**	Long-term	(78.00)	-	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-	-	-	-
5	**Unallocated Limits**	Long-term/ short-term	75.00	-	[ICRA]A- (Positive)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2
6	**Fixed Deposit**	Long-term	95.00	63.28	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	MA+ (Stable)	MA+ (Stable)	MA- (Stable)	MA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Working capital limits	Simple
Short-term fund based limits	Simple
Short-term – Interchangeable limits	Simple
Long-term – Interchangeable limits	Simple
Long-term/short-term – Unallocated Limits	N.A.
Fixed Deposit	Very 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	**Long-term fund based – Working capital limits**	NA	NA	NA	257.00	[ICRA]A- (Positive)
NA	**Short-term fund based limits**	NA	NA	NA	179.00	[ICRA]A2+
NA	**Short-term – Interchangeable limits**	NA	NA	NA	(257.00)	[ICRA]A2+
NA	**Long-term – Interchangeable limits**	NA	NA	NA	(78.00)	[ICRA]A-(Positive)
NA	**Long-term/short-term – Unallocated Limits**	NA	NA	NA	75.00	[ICRA]A-(Positive)/[ICRA]A2+
NA	**Fixed Deposit**	NA	NA	NA	95.00	[ICRA]A-(Positive)

Source: Company

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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