February 16, 2024

Krishna Jewellers Pearls & Gems: [ICRA]BBB- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	2.04	[ICRA]BBB- (Stable); assigned
Long Term- Cash Credit	42.00	[ICRA]BBB- (Stable); assigned
Long Term - Unallocated Limits	35.96	[ICRA]BBB- (Stable); assigned
Total	**80.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating considers improvement in the scale of operations of Krisna Jewellers Pearls & Gems (KJPG) over the last two fiscals, aided by addition of bridal jewellery to its existing pearls & gems and silverware collection, leading to a rise in the operating income to Rs. 500 crore in FY2023 from Rs.283 crore in FY2022. Muted improvement is expected in FY2024, and the performance is likely to improve in FY2025 with the addition of a new jewellery store at Kokapet, Telangana. The rating also considers the promoter's extensive experience of over two decades and established brand name in Telangana. KJPG's operational performance is likely to remain healthy in the coming quarters, driven by expansion and favourable demand conditions. Higher share of studded jewellery in the revenue mix supported the operating margin of the entity over the years despite a marginal drop in the operating margin to 7.4% in FY2023 from 8.8% in FY2022. KJPG's coverage metrics remained healthy with an interest cover of 6.5 times and DSCR of 4.6 times in FY2023. Going forward, coverage metrics are expected to moderate marginally with debt-funded store expansion planned in FY2024.

The rating is, however, constrained by high working capital requirements in the business and expectations of a further rise in working capital and term loan requirements towards new store addition at Kokapet. The rating is also constrained by the moderate scale of operations with entire revenues derived from a single store although addition of a new store in FY2025 would mitigate it to some extent. The capital structure had remained moderate and working capital borrowings have increased post withdrawal of capital by the partners worth Rs.14.7 crore in FY2023. The key capitalisation ratios including the gearing and total outside liabilities to the tangible net worth (TOL/TNW) have remained moderate at 1.0 times and 2.6 times, respectively. The entity's earnings remain exposed to fluctuation in gold prices. The rating also remains constrained by intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers' performance in the past. The rating further factors in the risks associated with the partnership firm.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters' family in the industry and established market position – KJPG has a strong retail presence and has a long track record of promoters' presence in the jewellery market of Telangana (since 1983). Vast experience of the promoters in the gold jewellery industry and the company's focus on providing jewellery tailored to customer needs helped establish a strong brand and a loyal customer base.

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, benefiting organised players like KJPG over the years. Further, its comfortable presence across major markets like Telangana 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

High geographical concentration risk – The entity remains exposed to high geographical concentration and depends on a single store as the entire revenues are generated from the store located at Jubilee hills, Telangana. Going ahead, the same is likely to moderate partially with commencement of a new showroom at Kokapet.

High working capital intensity and moderate financial profile – The working capital intensity has remained on the higher side in the recent years owing to higher inventory holding period, however, the inventory days moderated to 140 in FY2023 from 294 in FY2021. Going forward, the inventory days are expected to remain stable in the range of 140-170 days. Also, TOL/TNW has moved to 2.6 times in FY2023 against 2.2 times in FY2023 on account of limited cash accruals with higher partners' capital withdrawal witnessed in FY2023.

Performance exposed to intense competition and regulatory risks – 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. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold and imposition of excise duty are some of the regulations that have impacted business prospects in the past. KJPG 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.

Risks related to partnership nature of the firm – KJPG is exposed to the risks related to a partnership firm, including the capital withdrawal risk. In FY2023, the partners have withdrawn capital worth Rs.14.7 crore.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate in the subsequent years on account of scheduled debt repayments of Rs. 1-2 crore in FY2024 and FY2025. KJPG's average working capital utilisation stood at ~73% in the last twelve months ending in December 2023. The entity does not have any major term debt outstanding. Comfortable cash accruals from its core operations will support the liquidity position of the entity, going forward. Any large cash outflow in the form of partners' drawings would constrain its liquidity and would be a key monitorable.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to attain a healthy growth in revenues and earnings on a sustained basis.

Negative factors – The rating may be downgraded 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 withdrawal of capital from business, impacting liquidity position of the entity. Specific credit metrics that could lead to a rating downgrade include Debt/OPBDITA ratio falling below 2.3 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	Standalone

About the company

Krishna Jewellers Pearls and Gems was started as a partnership firm in 2018. It is a closely held partnership firm with Mr. Umesh Kumar Agarwal, Mrs. Aarti Agarwal and Mr. Milit Agarwal as partners. It is a part of a larger family business Group, which has operations since 1983. This partnership firm operates out of a single store located at Jubilee Hills, Telangana and is in the advanced stage of setting up another showroom at Kokapet, Telangana.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	283.1	501.1
PAT	12.4	19.4
OPBDIT/OI	8.6%	7.2%
PAT/OI	4.4%	3.9%
Total outside liabilities/Tangible net worth (times)	2.2	2.6
Total debt/OPBDIT (times)	1.1	1.0
Interest coverage (times)	5.4	7.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization; Amount in Rs crore

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 16, 2024	-	-	-
1	**Long Term- Term Loan**	Long term	2.04	2.04	**[ICRA]BBB- (Stable)**	-	-	-
2	**Long Term- Cash Credit**	Long term	42.00	--	**[ICRA]BBB- (Stable)**	-	-	-
3	**Long Term - Unallocated Limits**	Long term	35.96	--	**[ICRA]BBB- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Unallocated long term	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 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	Term Loan1	FY2021	NA	FY2024	0.12	[ICRA]BBB-(Stable)
NA	Term Loan2	FY2021	NA	FY2026	1.92	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	42.00	[ICRA]BBB-(Stable)
NA	Unallocated	NA	NA	NA	35.96	[ICRA]BBB-(Stable)

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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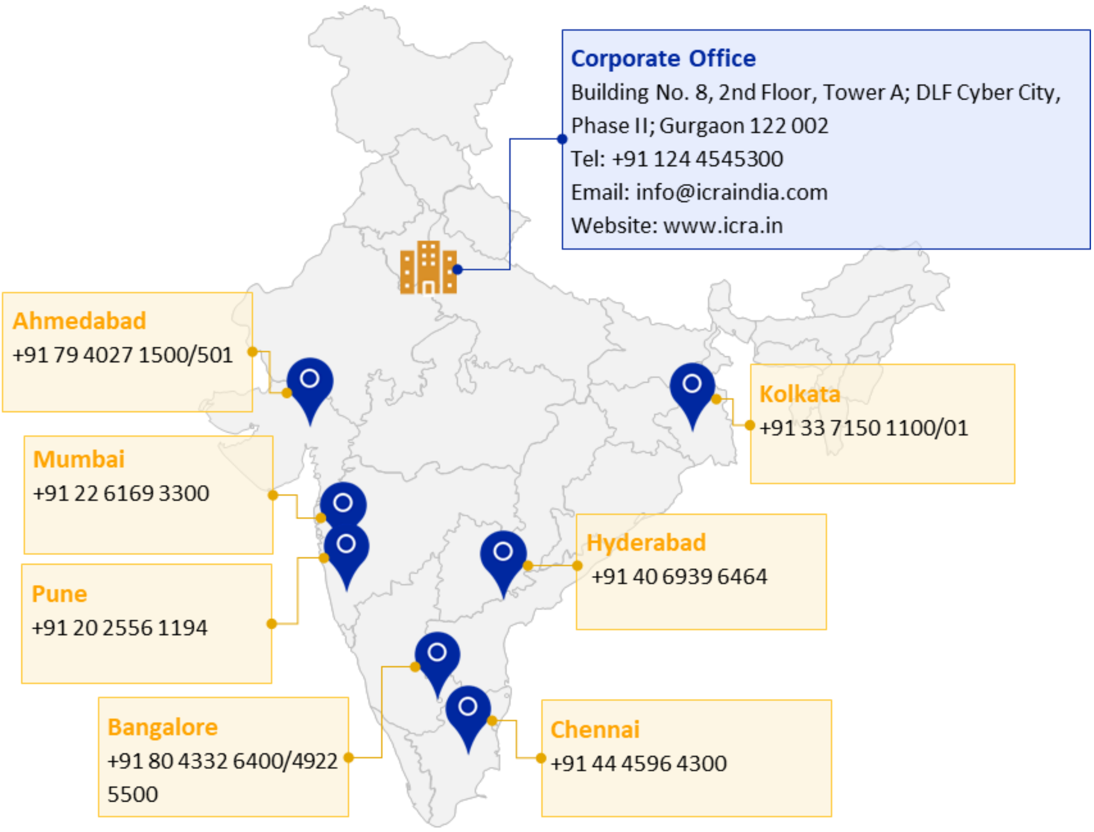

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