March 31, 2024

GR Thanga Maligai Firm: [ICRA]AA- (Stable)/[ICRA]A1+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund-based working capital limits	140.00	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Short-term non fund-based limits	15.00	[ICRA]A1+; assigned
Long-term – Term Loans	33.39	[ICRA]AA- (Stable); assigned
Total	**188.39**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of GRT Jewellers (India) Private Limited (GRTJIPL), including its subsidiaries – GRT Retail International Pte Limited, Singapore, GRT International Hospitality DMCC and RAR Industrial and Logistic Park Private Limited, along with four Group entities – G.R. Thanga Maligai Firm, G.R. Thanga Maligai & Sons, GRT Silverwares and RAR Retail and Infra LLP, jointly referred to as the GRT Group, given the significant operational, managerial and financial linkages among them.

The assigned ratings reflect the healthy operating and financial performances of the GRT Group in 9M FY2024 and ICRA's expectations that the performance would sustain over the medium term, supported by the Group's established market position in the domestic jewellery retail industry. The Group is among the largest jewellery retailers in India with a dominant market share in Tamil Nadu. It is expanding its presence in neighbouring markets of Andhra Pradesh and Karnataka. The ratings consider the Group's favourable inventory management policies, which together with its strong brand recall and extensive experience of its promoters, translate into industry-leading inventory turnover ratio of over 4 times. The Group's utilisation of low-cost fixed deposit-backed gold metal loans (GMLs) to fund most of its inventory limits its interest expenses while providing a natural hedge against volatile gold prices. Additionally, the Group's jewellery purchase schemes, which fund ~35% of its inventory, aid in attracting new customers. The Group is estimated to record an operating income of around Rs. 36,500 crore in FY2024, up ~12% on a YoY basis, driven by higher realisations amid rise in gold prices and around 3% growth in gold sales volume to ~55 tonnes. Its revenue is likely to grow by 9-10% per annum (p.a.) over the next 2-3 years on the back of accelerated formalisation of the industry and planned store additions. The Group's operating margin is expected to remain at ~5.0%, supported by a stable business model, efficiency gains with the implementation of SAP and high level of inventory hedging along with modification to the benefits offered under its jewellery purchase schemes. Besides jewellery retail operations, the Group has renewable energy capacity of 497.9 MW as on December 31, 2023, with all the power plants having long-term power purchase agreements (PPAs) with Solar Energy Corporation of India Limited (SECI, rated [ICRA]AAA (Stable)/ [ICRA]A1+) and state-owned distributions companies (discoms) in Tamil Nadu, Andhra Pradesh and Gujarat. ICRA also notes the Group's plans to diversify into warehousing and ethanol manufacturing with an estimated investment of Rs. 500-600 crore over the next 2-3 years, partly funded by incremental borrowings of ~Rs. 200 crore. Additionally, the Group has won a bid to set up a 150-MW solar power plant in Tamil Nadu at a project cost of ~Rs. 700 crore, which is expected to be funded through term loans of ~Rs. 450 crore in FY2025 and FY2026. Successful commissioning of the projects without any major cost and time over-run, tie-up of the requisite debt and achievement of the projected operating parameters, post commissioning, would remain under monitoring. The Group is also expected to extend financial support of Rs. 150-200 crore p.a. to the Group's other business interests including hospitality (including a proposed project in Maldives) and financial services, going forward.

The ratings, however, remain constrained by the high geographical concentration of revenues in the south Indian market with Tamil Nadu accounting for ~75% of the Group's revenue. Further, the relatively lower share (less than 10%) of high-margin studded jewellery in the overall revenue mix constrains the gross margin. ICRA also notes the sizeable addition to the Group's contingent liabilities in FY2023 due to receipt of income tax demand notices aggregating to ~Rs. 2,290 crore (Rs. 2,002 crore pertaining to AY2015-16 and the balance Rs. 288 crore for AY2016-17 to AY2021-22). ICRA understands that the Group had filed a writ petition before the Madras High Court for quashing the above orders. As per confirmation received from the management and the auditor, the demand notice pertaining to AY2015-16 has been quashed but a copy of the order is awaited. For other demand notices, the Group has been advised by the court to file an appeal with the IT authorities. Any unfavourable order in the above matters could have a material adverse impact on the Group's capital structure and liquidity position and thus would be monitored closely. ICRA observes that there is scope for improvement in the Group's corporate governance practices. The Group remains exposed to intense competition from other organised and unorganised players, which limits its pricing flexibility. However, the Group's strong brand equity and dominant market position mitigate the risk to an extent. The Group also remains exposed to regulatory risks, which could adversely impact its operating performance. The ratings also consider the risk of capital withdrawal from the partnership firms and investments by the Group in other business interests of the promoters, which could adversely impact the capital structure and liquidity position of the Group.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group will continue to maintain a comfortable capital structure with healthy coverage metrics over the medium term. The company's business profile is also likely to be supported by its established market position and favourable industry growth prospects.

Key rating drivers and their description

Credit strengths

Established market position and strong brand equity in south India – The GRT Group is one of the leading players in the domestic jewellery retail industry with a focussed presence in the south Indian market. It maintains a dominant market position in Tamil Nadu and enjoys a strong brand equity among customers in the region, supported by its six-decade long presence in the industry and extensive experience of the promoters. The Group operates a network of 56 jewellery retail showrooms (as on December 31, 2023) across Tamil Nadu, Andhra Pradesh, Telangana and Karnataka and plans to add 5-6 new stores to its chain every year over the medium term. The Group's strong brand name is also reflected in the robust enrolments to its jewellery purchase scheme, which is a source of store footfall.

Healthy financial risk profile – The Group's financial risk profile remains healthy, characterised by its large scale, sizeable cash accruals, high net worth base and comfortable debt protection metrics. While the operating margins remain constrained because of low share of high-margin studded jewellery and intense competition, the Group's ability to achieve industry-leading inventory turnover and fund inventory through low-cost FD-backed GMLs support its overall profitability. The management's initiatives to rationalise the benefits offered to customers under its jewellery purchase schemes are likely to improve the Group's operating margin by 30-40 bps over the coming quarters. ICRA expects the Group's coverage indicators to continue to remain healthy, going forward.

Favourable 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 the market share from unorganised players. The industry tailwind is expected to benefit the organised jewellery retailers like the GRT Group over the medium term, supported by its established market position and increasing retail presence.

Credit challenges

Sizeable contingent liabilities constrain the financial risk profile – The GRT Group had sizeable contingent liabilities worth Rs. 2,379 crore as on March 31, 2023 mainly on account of income tax demands aggregating to ~Rs. 2,290 crore (Rs. 2,002 crore pertaining to AY2015-16 and the balance Rs. 288 crore for AY2016-17 to AY2021-22). ICRA understands that the Group had filed a writ petition before the Madras High Court for quashing the above orders. As per confirmation received from the management and the auditor, the demand notice pertaining to AY2015-16 has been quashed but a copy of the order is awaited. For the other demand notices, the Group has been advised by the court to file an appeal with the IT authorities. Any unfavourable order in the above matters could have a material adverse impact on the Group's capital structure and liquidity position and thus would be closely monitored. ICRA also notes that the sizeable contingent liabilities indicate the scope for improvement in the Group's corporate governance practices.

High geographical concentration of revenue and limited product diversification – The GRT Group derived more than 75% of its overall revenue from Tamil Nadu over the last five years, with more than 45% from the Chennai market alone, which reflects high geographical concentration of revenue. The revenue contribution from Chennai has reduced successively from ~70% in FY2015 due to its increasing presence in tier-II and tier-III markets in Tamil Nadu to capitalise on the established brand name. Revenue contribution from Andhra Pradesh and Karnataka markets remains at ~25%. The Group remains conservative in its future store expansion plans and intends to focus on the south Indian market. High geographical concentration of revenue exposes the Group's revenue and profitability to disruption from localised events. The Group's focus on the south Indian market also translates into a low share of high-margin studded jewellery in the product mix owing to the region's preference for gold jewellery, which constrains the Group's margins.

The Group has sizeable capital expenditure of Rs. 500-700 crore p.a. planned over the next 2-3 years towards non-core ventures including ethanol manufacturing, warehousing, hospitality and solar power generation, which will be partly funded by incremental borrowings of ~Rs. 650 crore. While these investments could provide some revenue diversification to the Group over the long term, timely execution without significant cost overrun and achievement of the projected profitability would be monitored.

Exposure to regulatory risks and intense competition – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the Group's business. Mandatory PAN disclosure on transactions above a threshold limit, imposition of GST and demonetisation are some regulations that have impacted demand and supply in the past. Further, the industry is highly fragmented and exhibits intense competition from organised and unorganised players, which translates into limited pricing flexibility.

Liquidity position: Adequate

The GRT Group's liquidity remains adequate, characterised by free cash and liquid investments of more than Rs. 330 crore and buffer from unutilised working capital facilities of more than Rs. 900 crore (with commensurate drawing power) as on February 29, 2024. It also had fixed deposits worth more than Rs. 6,000 crore, which were encumbered as margin for GMLs availed by the Group as on March 31, 2023. The Group is expected to generate fund flow from operations of more than Rs. 1,300 crore p.a. over the medium term. Against this, it has repayment obligation of Rs. 141 crore in FY2025, Rs. 116 crore in FY2026 and Rs. 168 crore in FY2026. The Group is likely to invest Rs. 500-700 crore p.a. over the medium term towards capex in the jewellery segment and other diversification initiatives (including warehousing and ethanol manufacturing), which will be partly funded by debt. The average utilisation of the sanctioned working capital limits stood at ~80% during the 12-month period till January 31, 2024, which provides comfort. ICRA notes the Group's strong financial flexibility owing to its superior scale of operations and strong market position, which enables it to raise additional funding at a short notice. This is, however, tempered by the presence of sizeable contingent liabilities, any crystallisation of which could have an adverse impact on the liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a substantial and sustained growth in the Group's profitability along with increasing geographical and product diversification of its revenue, translating into improving coverage metrics and comfortable liquidity.

Negative factors – Pressure on the ratings could arise in case of a sustained deterioration in the operating performance or working capital cycle of the Group or unfavourable regulatory developments, adversely impacting the Group's coverage indicators and liquidity position. Any large capital withdrawal or higher-than-expected debt-funded capital expenditure, weakening the capital structure, could also put pressure on the ratings. Specific credit metrics that could result in ratings downgrade include Net TOL/TNW above 1.75 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	For arriving at the ratings, ICRA has considered the combined financials of GRTJIPL along with its subsidiaries and other related Group entities, as per details given in Annexure II

About the company

The GRT Group commenced jewellery retailing operations in 1964 with a store in Chennai. Over the years, it has expanded its presence to 56 stores across four states in India (it also has a store in Singapore) as on December 31, 2023 and is among the largest jewellery retailers in the country by revenue. The Group also operates renewable power plants with a commissioned capacity of 497.9 MW as on December 31, 2023. The Group is promoted and managed by Mr. G. Rajendran along with his sons, Mr. G R. Ananthapadmanabhan and Mr. G. R. Radhakrishnan. The promoters have diversified business interests spanning jewellery retail, renewable energy, hospitality and education, among others.

GR Thanga Maligai Firm is a partnership firm with the family members of Mr. G. Rajendran as partners. It operates a jewellery showroom in Chennai and 34 MW of renewable power generation capacity in Tamil Nadu.

Key financial indicators

Standalone	FY2022 (audited)	FY2023 (audited)
Operating income	2,653	3,653
PAT	134	186
OPBDIT/OI	3.2%	2.6%
PAT/OI	5.0%	5.2%
Total outside liabilities/Tangible net worth (times)	3.5	3.3
Total debt/OPBDIT (times)	10.2	9.6
Interest coverage (times)	3.3	3.7

Consolidated	FY2022 (audited)^	FY2023 (audited)^	9M FY2024 (provisional)
Operating income	24,060	32,561	29,009
PAT	719	802	NA
OPBDIT/OI	5.7%	4.7%	4.9%
PAT/OI	3.0%	2.5%	NA
Total outside liabilities/Tangible net worth (times)	4.1	3.9	NA
Total debt/OPBDIT (times)	5.9	5.9	NA
Interest coverage (times)	4.6	5.1	6.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; N.A.: Not available

Note: ICRA has combined the audited financial statements of GRT Jewellers (India) Private Limited, GRT Retail International Pte Limited, Singapore, RAR Industrial and Logistics Park Private Limited, GRT International Hospitality DMCC, RAR Retail and Infra LLP, G. R. Thanga Maligai Firm, G. R. Thanga Maligai and Sons and GRT Silverwares to arrive at the ratings.

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 31, 2024	-	-	-
1	Working capital facilities	Long-term/ short-term	140.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-
2	Non Fund-based limits	Short-term	15.00	-	[ICRA]A1+	-	-	-
3	Term Loans	Long-term	33.39	33.39	[ICRA]AA- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term – Fund-based working capital facilities	Simple
Short-term non fund-based limits	Very Simple
Long-term – Term Loans	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
N.A.	Working capital facilities	NA	NA	NA	140.00	[ICRA]AA- (Stable)/[ICRA]A1+
N.A.	Non fund-based limits	NA	NA	NA	15.00	[ICRA]A1+
N.A.	Term Loan-1	1-Sep-17	NA	29-Mar-25	3.05	[ICRA]AA- (Stable)
N.A.	Term Loan-2	1-Sep-17	NA	29-Mar-25	3.10	[ICRA]AA- (Stable)
N.A.	Term Loan-3	16-Dec-17	NA	3-Aug-27	8.33	[ICRA]AA- (Stable)
N.A.	Term Loan-4	22-Mar-18	NA	3-Aug-27	5.42	[ICRA]AA- (Stable)
N.A.	Term Loan-5	30-Jul-18	NA	31-Jul-28	9.64	[ICRA]AA- (Stable)
N.A.	Term Loan-6	29-Sep-18	NA	31-Jul-28	3.86	[ICRA]AA- (Stable)

Source: Company: Note: The marginal mismatch between the total rated amount of term loan (Rs. 33.39 crore) and the summation of the term loan values stated above is due to rounding off of the individual term loan values

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
GRT Jewellers (India) Private Limited	-	Full Consolidation
GRT Retail International Pte Limited, Singapore	-	Full Consolidation
RAR Industrial and Logistic Park Private Limited	-	Full Consolidation
GRT International Hospitality DMCC	-	Full Consolidation
RAR Retail and Infra LLP	-	Full Consolidation
G. R. Thanga Maligai Firm	- (rated entity)	Full Consolidation
G. R. Thanga Maligai & Sons	-	Full Consolidation
GRT Silverwares	-	Full Consolidation

Source: Company

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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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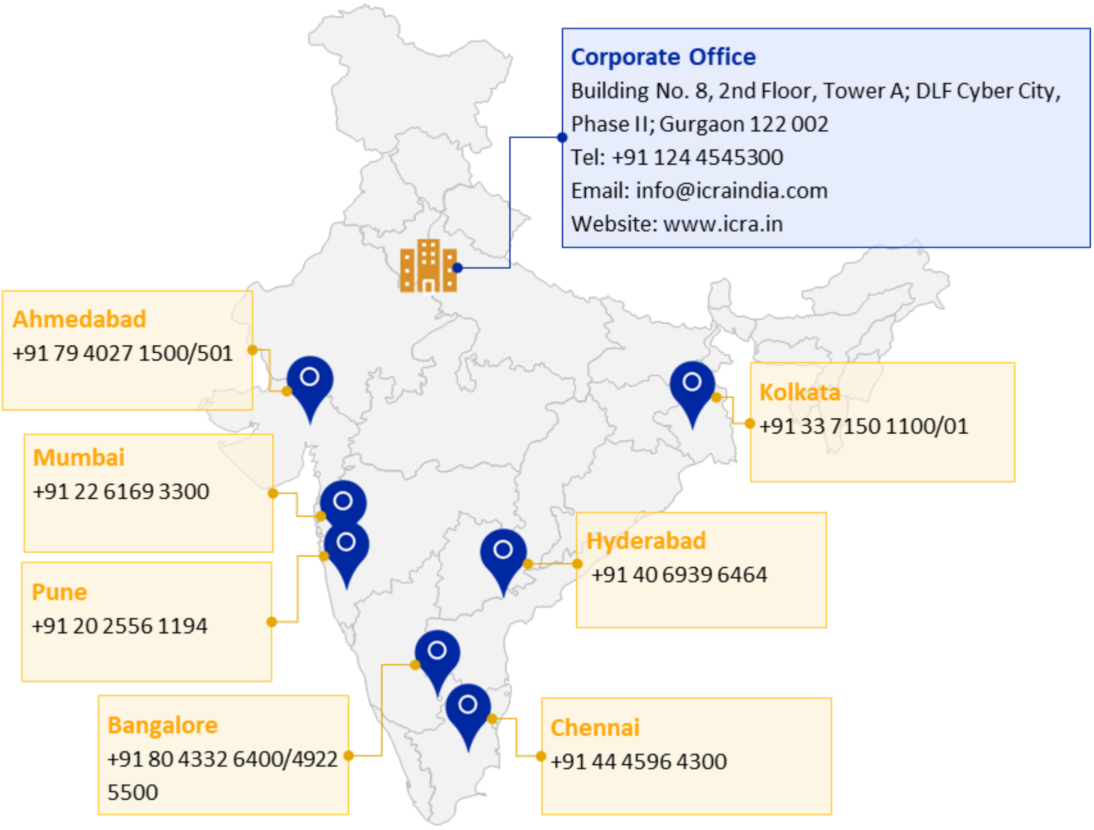

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