

June 28, 2024

## Bhima Jewels Private Limited: Ratings downgraded to [ICRA]BBB (Stable)/[ICRA]A3+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based working capital	728.60	730.00	[ICRA]BBB (Stable)/ [ICRA]A3+; downgraded from [ICRA]A- (Stable)/ [ICRA]A2+
Long term/Short term – Unallocated limit	1.40	0.00	-
<b>Total</b>	<b>730.00</b>	<b>730.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings downgrade for the bank facilities of Bhima Jewels Private Limited (Bhima) considers a significant contraction in the company's operating profitability over the last two fiscals on the back of increased operational costs to run the new showrooms, which currently have sub-optimal revenues, the new stores' low inventory turnover and a significant rise in the company's overall inventory days. Bhima's operating margin steadily slipped to 3.9% in FY2024 (provisional) from 4.8% in FY2023 and 6.2% in FY2022 and stands significantly lower than ICRA's previous expectation (~6%). Such considerable moderation in profitability and increased working capital borrowings to fund stocking requirements of new showrooms, in turn, resulted in a marked deterioration in the leverage and coverage metrics. While delays in achieving breakeven revenues from the new stores have weighed on Bhima's financial profile, the share of revenues from outside Kerala has increased gradually over the last two fiscals, aided by store expansion. Nevertheless, geographical concentration of its sales is still high, with Kerala contributing 77% to the overall revenue in FY2024 (down from 91% in FY2022), and the top three stores in Kerala accounting for ~48% of the overall sales.

The ratings, however, continue to factor in the extensive experience of Bhima's promoters in the jewellery retail business, its established brand presence, particularly in Kerala, and an accelerated formalisation in the industry, benefiting the organised jewellery retailers like Bhima. The company's gold jewellery sales volume growth remained high at 12% in FY2023 vis-à-vis a 2% growth in the overall industry. This coupled with a 7% rise in realisation led to a robust growth of 20% in the sales value of gold jewellery. In FY2024, the company's gold jewellery realisation sharply rose by 17%, however, its sales volume contracted by ~8% on the back of a sharp price rise, leading to a moderation in jewellery sales value growth to 8%. The overall sales volume is likely to contract in the current fiscal due to a further rise in gold prices by 19-20% so far post March 2024, however, improved realisation and store addition are likely to support the company's sales value growth, to some extent. The share of studded jewellery in Bhima's sales remained low, though improved to ~8% in FY2024 from ~7% in FY2023 mainly after setting up new stores in Telangana and Andhra Pradesh, where the demand for studded items is higher. The share of diamond sales also improved in the recent years. Going forward, the company's ability to increase the share of such value-added items in its revenue mix and ramp-up of sales from new stores would remain key determinants of its profitability. Commencement of in-house jewellery manufacturing by the company is also likely to support margins, going forward. However, the ratings continue to be constrained by the vulnerability of Bhima's earnings to volatility in gold prices, an intense competition on the back of a fragmented industry structure and aggressive store expansion plans undertaken by large players, along with the company's exposure to regulatory risks associated with the jewellery business.

The Stable outlook on the long-term rating reflects ICRA's expectations that the entity's established brand and long track record in the jewellery retailing industry along with marketing initiatives undertaken would help stabilise performance of the new stores opened outside Kerala, leading to an improvement in revenues and profitability. The company's capital structure and debt coverage metrics are unlikely to deteriorate further from the current level.

## Key rating drivers and their description

### Credit strengths

**Experience of promoters and established brand presence** – Mr. K. Lakshminarayana Bhattar (father of Mr. Bindu Madhav, the promoter) laid the foundation for Bhima Jewellers in Alleppy in 1925. Bhima, led by Mr. Bindu Madhav, has been in existence since 1990. The company benefits from the extensive experience of its promoter in the jewellery retail industry. The entity, along with other factions of the Bhima Bhattar Group, jointly use the century-old Bhima brand, which has an established presence in the South Indian jewellery retail market.

**Ongoing store expansion likely to support revenue growth, going forward, despite relatively weaker performance of the new stores so far** – The company has an established market position in Kerala. It has 18 showrooms at present, including 11 showrooms in Kerala, four showrooms in Telangana and one showroom each in Tamil Nadu, Karnataka and Andhra Pradesh. It added four stores in FY2024, including two stores in Telangana, one store in Andhra Pradesh and one store in Kerala. The company plans to open three more showrooms in Telangana in the near term to expand its presence in the state. The performance of the new stores, particularly those opened outside Kerala, has remained muted so far. However, the company's plans to open 3-4 stores annually in the medium term, to increase its geographical coverage, is likely to strengthen its revenue stream.

**Favourable long-term growth prospects of organised jewellers** – 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 to organised jewellers. The industry tailwind is likely to benefit the organised jewellers like Bhima over the medium term.

### Credit challenges

**Increase in fixed operational costs and sub-optimal revenues from new stores exerting pressure on cost structure** – Bhima opened six new stores over the last two fiscals, out of which five stores have been opened outside Kerala where the company has limited presence. There has been a substantial increase in the operational expenses due to store expansion, however, most of the new stores are yet to achieve breakeven sales. This has adversely impacted the company's cost structure, eroding the operating margin by ~230 basis points over the last two fiscals. Besides, the company's depreciation and interest expense increased significantly, squeezing the net margin to 0.7% in FY2024 (provisional) from 3.0% in FY2022. Despite a 33% jump in Bhima's operating income post FY2022, its net cash accrual dipped by 41% to Rs. 53.7 crore in FY2024 (provisional) from Rs. 91.3 crore in FY2022. Contraction in profits and increase in capital employed also halved Bhima's ROCE to ~8% in FY2024 (estimated) from ~16% in FY2022. Although ICRA expects the operating margin to improve going forward with increasing gold prices and the recent initiatives taken by the company for increasing in-house production and rationalising the making charges, the same needs to be demonstrated.

**Significant increase in inventory days raised borrowings level, adversely impacting capital structure and debt coverage metrics** – Jewellery retailing business is inherently working capital intensive in nature. The company needs to maintain an adequate variety of inventory at the stores to increase customer footfall. The company's inventory requirements have increased significantly because of store expansion outside Kerala in the recent years. This coupled with relatively lower sales from the new stores resulted in a significant increase in the inventory days to 181 in FY2024 (estimated), rising continuously from 167 in FY2023 and 136 in FY2022. The increased stocking requirement has been mainly funded by working capital borrowings, leading to a sharp rise in the overall debt level and deterioration in the debt coverage metrics. The company's gearing and TOL/TNW are estimated to have increased to 2.5 times and 3.6 times, respectively, as on March 31, 2024 from 1.7 times and 2.2 times, respectively, as on March 31, 2022. Its interest coverage weakened to 1.7 times in FY2024 (provisional) from 3.9 times in FY2022. However, for the new stores in the pipeline, the company plans to reallocate inventory from other stores where the stocks are on the higher side, which is likely to limit further increase in the inventory and borrowing level to an extent, notwithstanding an increasing trend in gold prices.

**High concentration of sales in Kerala, despite ongoing expansion in other states in the recent years** – While delays in achieving breakeven revenues from the new stores have weighed on Bhima's financial profile, the share of revenues from outside Kerala has improved gradually over the last two fiscals, aided by store expansion. Nevertheless, geographical concentration of its sales is still high, with Kerala contributing 77% to the revenue in FY2024 (down from 91% in FY2022), and the top three stores in Kerala accounting for ~48% of the overall sales. Increased marketing spends, including roping in of a popular Telugu actor, Ram Charan, is likely to give a fillip to the company's revenue growth in the medium term.

**Exposed to regulatory risks and intense competition prevalent in the jewellery retailing business** – The domestic jewellery retail 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, and mandatory PAN disclosure on transactions above a threshold limit are some of the regulations that have impacted business prospects in the recent past. The company remains exposed to regulatory changes, which may impact its business performance. Additionally, the sector is highly fragmented and is exposed to intense competition from large organised and unorganised players, which limits the pricing flexibility of retailers to an extent.

### Liquidity position: Adequate

The entity's liquidity position is expected to remain adequate. Its cash flow from operations in FY2024 is estimated to be negative and is likely to remain such in FY2025 as well due to increasing working capital requirements. However, in FY2024, Bhima got its working capital limit enhanced by ~Rs. 130 crore and has received incremental sanction of Rs. 75 crore in the current fiscal. Customer advances (including jewellery savings schemes) also meet a part of its working capital requirement. As on March 31, 2024, the company had undrawn working capital limits (including purchase invoice financing facilities) of ~Rs. 69 crore. Bhima would incur capex of Rs. 15-20 crore per annum for store expansion in the coming few years, which are likely to be funded mainly through internal accruals. Its annual term loan repayment obligation (excluding lease liabilities) will be Rs. 19-20 crore till FY2026. The company has unsecured loans of nearly Rs. 70 crore from promoters (interest free) and a group entity (with 8% interest), which support the liquidity to some extent. While the loan from promoters (~Rs. 44 crore) is scheduled to be repaid by March 2025, the same is likely to be reinvested. An additional fund of ~Rs. 25 crore has been planned to be infused by the promoters in the near term, which are likely to support Bhima's liquidity. The company had free cash balance of ~Rs. 18 crore as on March 31, 2024. However, a significant amount of cash collateral (~Rs. 91 crore currently) provided to the banks encumbers the liquidity to some extent.

### Rating sensitivities

**Positive factors** – Bhima's ratings may be upgraded if the company's profitability improves on a sustained basis and if the sales from the new stores rise significantly, leading to a healthy revenue growth and a substantial reduction in inventory days, strengthening its liquidity. An improvement in its capital structure and debt coverage metrics would also be the key triggers for ratings upgrade.

**Negative factors** – The ratings may be downgraded in case of sustained pressure on debt protection metrics and liquidity position of the entity. DSCR below 1.3 times on a sustained basis may result in further downgrade of the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Jewellery - Retail</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

## About the company

Bhima is a leading gold jewellery retailer, particularly in Kerala. It has 18 showrooms at present, including 11 showrooms in Kerala, four showrooms in Telangana and one showroom each in Tamil Nadu, Karnataka and Andhra Pradesh. The company is increasing its presence outside Kerala. It plans to open three more showrooms in Telangana in the near term. Bhima's product profile mainly consists of gold jewellery, which had a share of 87% of the total sales in FY2024, while the balance comprises diamond, gold coins, platinum, silver, and precious stones, among others.

The Bhima Cochin Group, set up in 1978 (pursuant to family succession planning), was promoted by Mr. Bindu Madhav of the Bhima Bhattar family, which has been in the jewellery business since 1925. In April 2018, the Bhima Cochin Group underwent an internal restructuring wherein the business operations of Bhima Jewels, Bhima Boutique Private Ltd, and Bhima Silver Palace were transferred to Bhima Jewels Private Limited (rated entity) through slump sales.

## Key financial indicators (audited)

Bhima Jewels Private Limited (standalone)	FY2022	FY2023	FY2024 (Provisional)
<b>Operating income</b>	2,557.5	3,296.6	3,409.2
<b>PAT</b>	76.2	41.9	23.7
<b>OPBDIT/OI</b>	6.2%	4.8%	3.9%
<b>PAT/OI</b>	3.0%	1.3%	0.7%
<b>Total outside liabilities/Tangible net worth (times)</b>	2.2	3.3	-
<b>Total debt/OPBDIT (times)</b>	4.0	5.8	-
<b>Interest coverage (times)</b>	3.9	2.2	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
				Jun 28, 2024	-	Mar 23, 2023	Mar 10, 2023	Feb 01, 2022	Dec 14, 2021
<b>1 Fund-based working capital</b>	Long term/short term	730.00	-	[ICRA]BBB (Stable)/[ICRA]A3+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-
<b>2 Unallocated</b>	Long term/short term	0.00	-	-	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
<b>3 Issuer Rating</b>	Long term	-	-	-	-	-	[ICRA]A-(Stable); Withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based working capital	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	Fund-based working capital*	NA	NA	NA	730.00	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company; \*Includes cash credit/WCDL/supply chain finance

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

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