

October 18, 2024

Tribhovandas Bhimji Zaveri Limited: Rating reaffirmed for bank facilities; issuer rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based working capital/Cash Credit	625.00	625.00	[ICRA]A- (Stable); reaffirmed
Issuer Rating	-	-	[ICRA]A- (Stable); reaffirmed and withdrawn
Total	625.00	625.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers TBZ's stable business profile and the improvement in the operating profit margin (OPM) to 6.1% in FY2024 from 4.9% in FY2023 on the back of cost optimisation initiatives and planned reduction in corporate sales, where the margin is thin. ICRA expects that the company would be able to maintain the OPM at a level similar to what it achieved in FY2024, going forward. The company's operating income declined by ~4% in FY2024 due to a contraction in sales volume amid a sharp rise in gold prices and reduction of low-margin corporate sales of bars and coins. In Q1 FY2025, the company's operating income grew by 4% on a YoY basis and the OPM improved to 6.9% from 5.7% in Q1 FY2024. Historically, TBZ remained conservative in store expansion. However, the company opened two new own (company owned company operated [COCO]) stores in the last two fiscals and has opened two franchisee stores in the current fiscal. It plans to open another franchisee store, shortly. Such store expansion is likely to positively impact its revenue growth. Its leverage and coverage metrics remained stable in FY2024 and are likely to remain resilient in the near-to-medium term.

The rating continues to consider the promoters' extensive experience in the industry, which has enabled TBZ to establish a strong brand name in the jewellery retail markets, particularly in Maharashtra and Gujarat, and an accelerated formalisation in the industry, benefiting the organised jewellery retailers like TBZ. The reduction in customs duty on gold by 9%, announced in the last Union Budget, is also likely to curb illicit import and trade of gold and consequently drive growth in the organised jewellery sector. While TBZ's revenue remains concentrated in western India, store expansion in other regions is likely to improve its geographical diversification, going forward. TBZ's working capital requirement remains high due to its moderate inventory turnover. A sharp rise in gold prices has led to a further increase in the overall working capital requirement. Significant interest obligation arising from working capital borrowings kept its coverage metrics moderate. However, its capital structure remained comfortable, as reflected by a gearing (including lease liabilities) of 1.0 times and TOL/TNW (including lease liabilities) of 1.4 times as on March 31, 2024. The company has nominal long-term loans. Moreover, TBZ's current focus on the asset-light franchisee model for future expansion would not only keep the borrowing level under check, going forward, but would also help TBZ in expanding its geographical reach in a shorter time. The rating remains constrained on account of intense competition in a fragmented industry structure and regulatory risks, which have impacted the retailers' performance in the past. Nevertheless, a high share of diamond ornaments in TBZ's sales mix and its in-house diamond jewellery designing and manufacturing capability provide competitive advantages to some extent.

ICRA has reaffirmed and withdrawn the issuer rating earlier assigned to TBZ in accordance with ICRA's policy on withdrawal and as requested by the company.

The Stable outlook on the long-term rating reflects ICRA's expectations that TBZ's operational and financial performances will continue to benefit from its established market position as a reputed retailer of gold and diamond jewellery and the planned expansion mainly through the asset-light franchisee model, which is likely to support its capitalisation and coverage metrics.

Key rating drivers and their description

Credit strengths

Established market position with a strong brand name and long experience of promoters – TBZ enjoys a strong retail presence and has a long track record in the jewellery business for more than 150 years. Vast experience of the promoters in the gold jewellery industry and the company's focus on providing ornament designs that suit specific tastes and preferences of the customers enabled TBZ to establish its strong brand and to build a loyal customer base. The same lead to repeat purchases across all key markets. TBZ is a reputed player in diamond-studded jewellery. It has a healthy share of studded jewellery, which is above 25% at present. Its in-house diamond jewellery designing and manufacturing capability, through its wholly-owned subsidiary, renders cost benefit and competitive advantage, to an extent.

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 organised jewellers like TBZ, going forward. The customs duty on gold was reduced by 9% by the Government from July 24, 2024, as announced in the last Union Budget. This is likely to curb illicit import and trade of gold, in turn benefitting the organised jewellery sector.

Focus on expansion majorly through the asset-light franchisee model likely to support leverage and coverage metrics – The company runs 35 showrooms across 13 states in India at present, of which 30 are operated by the company and the rest five are franchisee owned, franchisee operated (FOFO) stores. It opened one new COCO store each in FY2023 and FY2024 and has opened two FOFO stores in the current fiscal. Another FOFO store will be opened shortly. The FOFO stores purchase inventory from TBZ and incurs the capex required for setting up showrooms. TBZ's gross margin remains lower for the sales made to franchisees. However, in this model, the franchisees incur the entire operational expenses, except the selling expenses, which are almost equally shared between TBZ and the franchisees. Hence, the operating margin from FOFO stores remains almost in line with COCO stores. As TBZ need not invest in inventory and capex for FOFO stores, its own working capital borrowing and interest cost remain low in this model. TBZ may open new COCO stores as well in the near term, however, it plans to rely mainly on the asset-light franchisee model for future growth, which is likely to support its capital structure and debt coverage metrics, going forward.

Credit challenges

High working capital intensity of operations – Jewellery retailing business is inherently working capital intensive in nature. The company is required to maintain adequate varieties of inventory at the stores to increase customer footfall. TBZ's working capital intensity of operations remained high due to its moderate inventory turnover. A high share of diamond in the inventory mix (38% as on March 31, 2024) reduces inventory turnover as diamond is a relatively slow-moving item compared to gold. The inventory days remained high at 210 in FY2024 vis-à-vis 203 in FY2023. The company's NWC/OI increased to 44% in FY2024 from 39% in FY2023 as it increased the share of cash payment for purchase of gold jewellery from vendors to avail discounts, reducing the creditor days. A sharp rise in gold prices has led to an increase in the overall working capital requirement. Its working capital intensity in the medium term is expected to remain in line with the current level. The interest obligation arising from sizeable working capital borrowing resulted in moderate coverage indicators, reflected by an interest coverage ratio of 2.8 times in FY2024 (2.6 times in FY2023). Nevertheless, a portion of TBZ's working capital is met by customer advances, which stood at Rs. 87.4 crore as on March 31, 2024 out of which Rs. 71.1 crore was towards jewellery savings scheme (TBZ Kalpavruksha). Moreover, the company's focus on future expansion primarily through the franchisee route will limit additional inventory requirement, to an extent.

Significant sales concentration in Maharashtra and Gujarat, notwithstanding increasing presence in other regions – TBZ has presence across 13 states in India. However, the major part of its revenue is derived from Maharashtra and Gujarat where the company owns and runs 10 and 8 showrooms, which contribute 33% and 21% of its overall revenue, respectively. The geographical concentration risk is mitigated to an extent by the strong brand name enjoyed by TBZ in these states. The company is opening new stores in other states to enhance its presence in other regions.

Exposed to regulatory risks and intense competition prevalent in the jewellery retailing business – The domestic jewellery sector continues to be exposed to the regulatory risks, which may have an adverse impact on the business. Restrictions on bullion imports and metal loan funding, and mandatory PAN disclosure on transactions above a threshold amount are some of the regulations that have impacted business prospects in the past. TBZ 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 the retailers to an extent.

Liquidity position: Adequate

TBZ’s liquidity position is expected to remain adequate. Its cash flow from operations turned negative in FY2024 due to an increase in working capital requirement with reduced creditors. Rise in gold prices is likely to result in an increase in inventory, keeping the cash flow from operations negative in the current fiscal, despite healthy earnings. However, the company’s working capital limit increased by Rs. 45 crore in FY2024 and it has proposed further enhancement in the limit by ~Rs. 100 crore. TBZ’s unutilised working capital limit stood at Rs. 117 crore as of June 2024. Advances from customers (Rs. 87.4 crore as on March 31, 2024), including the jewellery savings scheme, also meet a part of its working capital requirement. The company has nominal long-term debt repayment obligation of only ~Rs. 0.2 crore per annum till FY2027 (excluding lease liabilities), and it does not have any major capex plan in the medium term.

ESG related comments

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

Rating sensitivities

Positive factors – TBZ’s rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to a rating upgrade include an interest coverage ratio above 4.0 times 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 the liquidity position of the entity. Specific credit metrics that could lead to a rating downgrade include TOL/TNW above 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery - Retail Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial performance of TBZ along with its wholly-owned subsidiary enlisted in Annexure-II.

About the company

Tribhovandas Bhimji Zaveri Limited (TBZ), known for the brand 'TBZ- the Original', is one of India's oldest jewellery houses. It started jewellery retailing business in 1864. TBZ was incorporated in July 2007 following the conversion of a partnership firm, Tribhovandas Bhimji Zaveri. It was reconstituted as a public limited company from a private limited company in December 2010. At that time, TBZ had only one store in Mumbai. Currently, the company runs 35 showrooms across 13 states in India, of which 30 are operated by the company and the rest are franchisee stores. It plans to open another franchisee showroom shortly. The company is involved in retail sales of ornaments made of gold, diamond, silver, platinum and precious stones. It is a reputed player in diamond-studded jewellery. TBZ has a prominent presence in Maharashtra and Gujarat, where it owns and runs 10 stores and 8 stores, respectively. The company got listed on NSE and BSE in 2012. The promoters hold a 74% stake in the company and the operations are looked after by the fifth generation of the promoter family.

TBZ has a wholly-owned subsidiary called Tribhovandas Bhimji Zaveri (Bombay) Limited. It is involved in designing and manufacturing of diamond ornaments on a job-work basis for TBZ.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	Q1 FY2024*	Q1 FY2025*
Operating income	2,393.6	2,298.9	570.8	596.2
PAT	40.2	54.4	11.4	17.0
OPBDIT/OI	4.9%	6.1%	5.7%	6.9%
PAT/OI	1.7%	2.4%	2.0%	2.9%
Total outside liabilities/Tangible net worth (times)^	1.6	1.4	-	-
Total debt/OPBDIT (times)^	4.9	4.4	-	-
Interest coverage (times)	2.6	2.8	2.7	3.2

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; *Unaudited; ^total outside liabilities and total debt include lease liabilities

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)	Oct 18, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long term	-	[ICRA]A- (Stable) Withdrawn	24-Aug-23	[ICRA]A- (Stable)	-	-	-	-
				30-Aug-23	[ICRA]A- (Stable)	-	-	-	-
Fund-based working capital/Cash Credit	Long term	625.00	[ICRA]A- (Stable)	30-Aug-23	[ICRA]A- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable
Fund-based working capital/ Cash Credit	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	Issuer Rating	NA	NA	NA	-	[ICRA]A- (Stable); withdrawn
NA	Fund-based working capital/ Cash Credit	NA	NA	NA	625.0	[ICRA]A- (Stable)

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	TBZ's Ownership	Consolidation Approach
Tribhovandas Bhimji Zaveri (Bombay) Limited	100.00%	Full Consolidation

Source: Company

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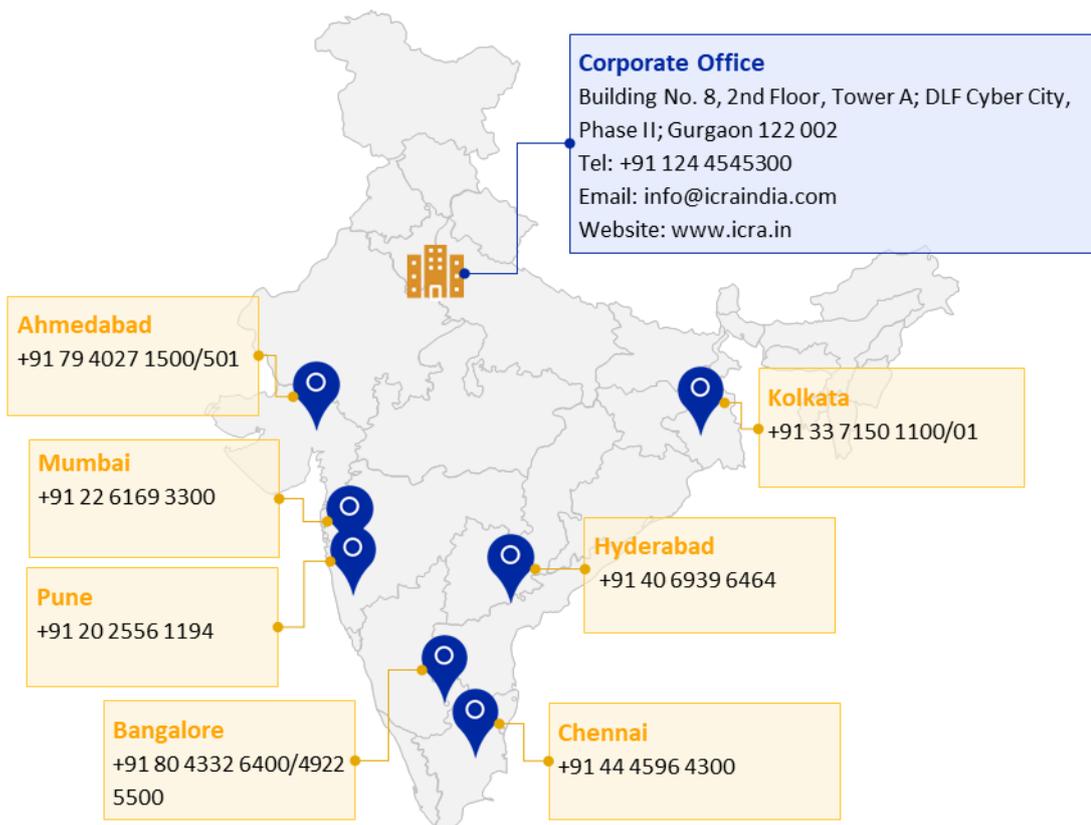
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