February 20, 2025

Kirtilal Kalidas Jewellers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based Limits – Working Capital Facilities	230.00	230.00	[ICRA]BBB+ (Stable), reaffirmed
Total	**230.00**	**230.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the rating considers the extensive experience of the promoters of Kirtilal Kalidas Jewellers Private Limited (KKJPL) in the retail jewellery business and established track record of KKJPL's operations, aided by its established brand name in the jewellery retail markets in southern India. The rating continues to derive comfort from the favourable financial risk profile of the company, characterised by a conservative capital structure and adequate debt protection metrics, which are likely to continue, going forward. Higher share (70-75%) of studded jewellery in the revenue mix supported the operating margin of the entity over the years. In line with the growing scale of operations, the overall profits and cash accruals from the business are estimated to gradually increase, going forward. The rating further considers the favourable long-term growth prospects of organised jewellers with an accelerated shift in the market share from unorganised to organised jewellers, which are likely to benefit KKJPL.

The rating, however, is constrained by the vulnerability of KKJPL'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 jewellers, along with the inherent regulatory risks associated with the jewellery business and a cautious lending environment. ICRA notes that the company's scale of operations continued to remain relatively smaller compared to other established organised players in the gold jewellery – retail sector. Nevertheless, the operating income of the company witnessed a steady growth over the past few years, primarily driven by rise in gold prices. Increase in volume of sales also played a significant role towards the growth trajectory. In the first half of the current fiscal, KKJPL, on a standalone basis, reported a turnover of around Rs. 882 crore, driven by a steep rise in the gold price. ICRA expects the overall top line of the company, on a consolidated basis, to grow by 8-10% in FY2025 on a YoY basis, driven by an increased gold price as sales volume is estimated to witness a decline. The rating continues to factor in the high working capital intensive nature of operations, necessitated from large inventory holding due to its nature of business, which exerts pressure on its liquidity and also results in higher dependence on working capital loans. The rating is also impacted by the high geographical concentration risk as KKJPL derives around 80% of its revenue from Tamil Nadu.

The Stable outlook on the long-term rating reflects ICRA's opinion that KKJPL's operational and financial performances will continue to benefit from its established market position, increased focus on expansion into new markets and generation of adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Established market position, expanding retail network in southern India – The operations of KKJPL are spread across Tamil Nadu, Telangana, Andhra Pradesh, Karnataka and Kerala. The company enjoys an established retail presence and has an operational track record of more than eight decades in the south Indian jewellery market. 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 it to establish its strong brand and capture a loyal customer base. The company has been operating through a retail network of 19 showrooms, including three franchisee stores, as of January 2025. Going forward, the company plans to add 2-3 new stores annually, including franchisee outlets, and deepen its presence in tier-2 and tier-3 cities to capitalise on its brand recognition, which is expected to benefit the company's business diversification.

Favourable financial risk profile, characterised by a conservative capital structure and adequate debt protection metrics – The capital structure of the company has remained conservative over the past years owing to a healthy net worth and limited reliance on external liabilities. The gearing and TOL/TNW of the company, on a consolidated basis, stood at 0.9 times and 1.2 times, respectively as on March 31, 2024. The coverage indicators of KKJPL remained at a comfortable level on account of healthy profits and cash accruals along with relatively lower debt level. Going forward, the debt level of the company is estimated to increase on the back of enhanced working capital borrowings to support its likely increased scale of operations. Nevertheless, in view of sizeable profits and cash accruals from the business, ICRA does not foresee any major deterioration in the capital structure and debt protection metrics of the company, going forward.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry in the recent years, aimed at improving transparency and standardisation, have accelerated the shift in the market share from the unorganised players to organised ones. The industry tailwinds are expected to benefit organised jewellery retailers like AEPL over the medium term, supported by its expanding retail presence. Also, the customs duty cut of 9% on gold, in the Union Budget in July 2024, is likely to disincentivise illegal import, benefiting the organised players.

Credit challenges

Relatively smaller scale of current operations with high geographical concentration risk – Historically, the scale of operations of the company has remained relatively smaller compared to other established organised players in the gold jewellery – retail sector. The operating income of the company witnessed a steady growth over the past few years, primarily driven by the increase in gold price. Volume growth also contributed significantly towards the growth trajectory. Moreover, increase in revenue from diamond jewellery, which accounted for ~50% of its revenue (consolidated operations) in FY2024, also supported its top line growth over the past years. Despite a planned addition of retail outlets and an established market position of the company in southern India, the overall volume of sales of gold jewellery is likely to fall in FY2025 on the back of a steep rise in the gold price. However, the company's operating income is likely to rise by 8-10% in FY2025, on a YoY basis, owing to a sharp rise in gold price and also increased volume of sale of diamond jewellery. The company derives around 80% of its revenue from Tamil Nadu, with Telangana and Andhra Pradesh being the other major contributors. High geographical concentration of revenue exposes the company to risks arising from any local event, which could adversely impact the business profile. However, the risk is mitigated to an extent by the company's fair brand presence. The company has been opening new stores outside Tamil Nadu, which is likely to improve its geographical diversification of revenue over the medium term.

Performance exposed to intense competition and regulatory risks in retail jewellery segment – Jewellery retail business is very competitive, with a large share of unorganised trade. This coupled with robust store expansion by larger retailers in tier-2 and tier-3 cities in the recent years has intensified competition and limited the pricing flexibility. KKJPL remains exposed to intense industry competition with limited pricing flexibility and presence of a large number of organised and unorganised players, which would keep its margins under check. The jewellery retail industry has witnessed increased regulatory intervention in the recent years, like restrictions on bullion imports, limited access to gold metal loans, limitation on jewellery saving schemes, mandatory PAN disclosure on transactions above a threshold limit, implementation of the Goods and Service Tax etc., which impacted the operating environment and consequently the performance of the jewellers. Increasing supervision and cautious lending environment further restricted fund flows to the sector. However, KKJPL enjoys a healthy relationship with banks and has been able to increase its working capital limits on a timely basis.

Earnings exposed to volatility in gold prices – The profitability of the company remains exposed to volatility in gold prices as the entity formally hedges only 15-20% of its gold inventory. This is, however, mitigated to a large extent by the extensive experience of the promoters and daily purchase of gold, in line with sales, to manage inventory costs. The operating profit margin (OPM) of the company, on a consolidated basis, witnessed a steady decline to 5.5% in FY2024 from 8.4% in FY2022. However, the OPM, when adjusted for retail sales only, continued to remain in the range of 7-8% over the past few years. The net profit margin (NPM) followed suit and stood at a comfortable level of 2.8% in FY2024. The RoCE of KKJPL stood at a comfortable level of around 15% in FY2024. ICRA expects that the OPM of the company is likely to remain in the range of 5-6% (7-8%, adjusted for retail sales only) in the next two years. Despite some moderation, the RoCE of KKJPL would continue to remain comfortable and in the range of 13-14%, going forward. In line with the growing scale of operations, the overall profits and cash accruals from the business are estimated to gradually increase, going forwards.

High working capital intensity of operations, exerting pressure on liquidity – Jewellery retailing business is highly working capital intensive in nature, given the need to display varied designs of jewellery to its customers across its showrooms. KKJPL generally maintains an inventory of 4-5 months on an average (as it is predominantly present in the studded segment), across its stores, depending on the footfall and the stockholding surge during the festive season. The net working capital relative to the operating income of KKJPL stood at around 37% in FY2023, exerting pressure on its liquidity position. However, the same reduced to around 33% in FY2024, primarily driven by relatively lower inventory holding compared to its top line. ICRA expects that the company's working capital intensity of operations would continue to remain at an elevated level, going forward. With a large stockholding requirement, dependence on working capital loans would continue to remain high. Additionally, given the rising gold prices and expected top line growth, the working capital intensity may increase to some extent, going forward. The company's ability to manage its inventory levels and liquidity position, while increasing the scale of operations will be the key determinants of its financial risk profile.

Liquidity position: Adequate

The company generated negative cash flow from operations in the last year due to increase in the working capital requirement to fund the sizeable revenue growth, despite a moderation in the working capital intensity of operations. Further, a likely growth in the top line in FY2025 as well as in FY2026 via addition of new stores and elevated gold prices would lead to higher inventory holding and is estimated to keep the cash flow from operations negative. The average fund-based working capital utilisation of the company stood at a high level of around 95% during the last 12 months, ended in December 2024. However, the company has enhanced its working capital limits in the recent past, which would support its liquidity. KKJPL had unencumbered cash/ bank balance and liquid investments of around Rs. 39 crore as on March 31, 2024. The company has long-term debt repayment obligations of Rs. 12-13 crore, including lease liabilities, over the next two years. KKJPL is expected to generate cash accruals of around Rs. 60 crore in FY2025, which would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and capital expenditure of Rs. 8-10 crore. ICRA expects the overall liquidity position of the company to remain adequate, going forward. Any large cash outflow towards contingent liabilities could constrain its liquidity and would be a key monitorable.

Rating sensitivities

Positive factors – KKJPL's rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, which would consequently improve its debt protection metrics and liquidity position.

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 liquidity position of the entity. Specific credit metrics that may trigger rating downgrade include an interest coverage of less than 3.5 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 rating, ICRA has considered the consolidated financials of KKJPL. As on March 31, 2024, the company had one subsidiary, which is enlisted in Annexure II.

About the company

Kirtilal Kalidas Jewellers Private Limited (KKJPL) started its operations in 1939 as a partnership concern and was subsequently converted into a private limited company in 2008. The company is involved in retailing of gold/diamond/platinum and various studded jewellery and operates through 16 showrooms and three franchisee stores, as of January 2025, spread across the southern region of India. The company operates in five states – Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana. Most of the revenue (70-75%) is derived from the sale of studded jewellery and the balance is from the sale of gold jewellery. The company is managed by Mr. Paresh Kirtilal Mehta and Mr. T Shantakumar.

Kirtilal Kalidas Jewellers Inc. is based out of the US and is a wholly-owned subsidiary of KKJPL, which sells jewellery to NRIs in the US via. exhibitions, trade fairs etc.

Key financial indicators (audited)

KKJPL	Standalone				Consolidated	
	FY2023	FY2024	H1 FY2025*	H1 FY2024*	FY2023	FY2024
Operating income	1,276.4	1,677.7	881.6	856.1	1,297.4	1,693.0
PAT	39.4	47.0	32.0	35.6	43.7	48.2
OPBDIT/OI	6.0%	5.4%	6.7%	6.9%	6.3%	5.5%
PAT/OI	3.1%	2.8%	3.6%	4.2%	3.4%	2.8%
Total outside liabilities/Tangible net worth (times)	1.2	1.2	1.4	1.1	1.1	1.2
Total debt/OPBDIT (times)	3.3	3.4	2.9	2.1	3.0	3.3
Interest coverage (times)	4.1	4.0	4.4	7.2	4.4	4.0

*Source: Kirtilal Kalidas Jewellers Private Limited, ICRA Research; * Provisional numbers; 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 20, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based working capital facilities	Long term	230.00	[ICRA]BBB+ (Stable)	Mar 22, 2024	[ICRA]BBB+ (Stable)	Sep 13, 2022	[ICRA]BBB+ (Stable)	-	-
				Oct 19, 2023	[ICRA]BBB+ (Stable)	Aug 24, 2022	[ICRA]BBB+ (Stable)	-	-
Unallocated limits	Long term	-	-	Mar 22, 2024	-	-	-	-	-
				Oct 19, 2023	[ICRA]BBB+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long 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 facilities 1	-	-	-	95.00	[ICRA]BBB+ (Stable)
NA	Fund-based working capital facilities 2	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	Fund-based working capital facilities 3				30.00	[ICRA]BBB+ (Stable)
NA	Fund-based working capital facilities 4	-	-	-	75.00	[ICRA]BBB+ (Stable)

Source: Kirtilal Kalidas Jewellers Private Limited

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

Annexure II: List of entities considered for consolidated analysis

Company Name	KKJPL's Ownership	Consolidation Approach
Kirtilal Kalidas Jewellers Inc., USA	100.00%	Full Consolidation

Source: Annual Report of 2023-24 of Kirtilal Kalidas Jewellers Private Limited

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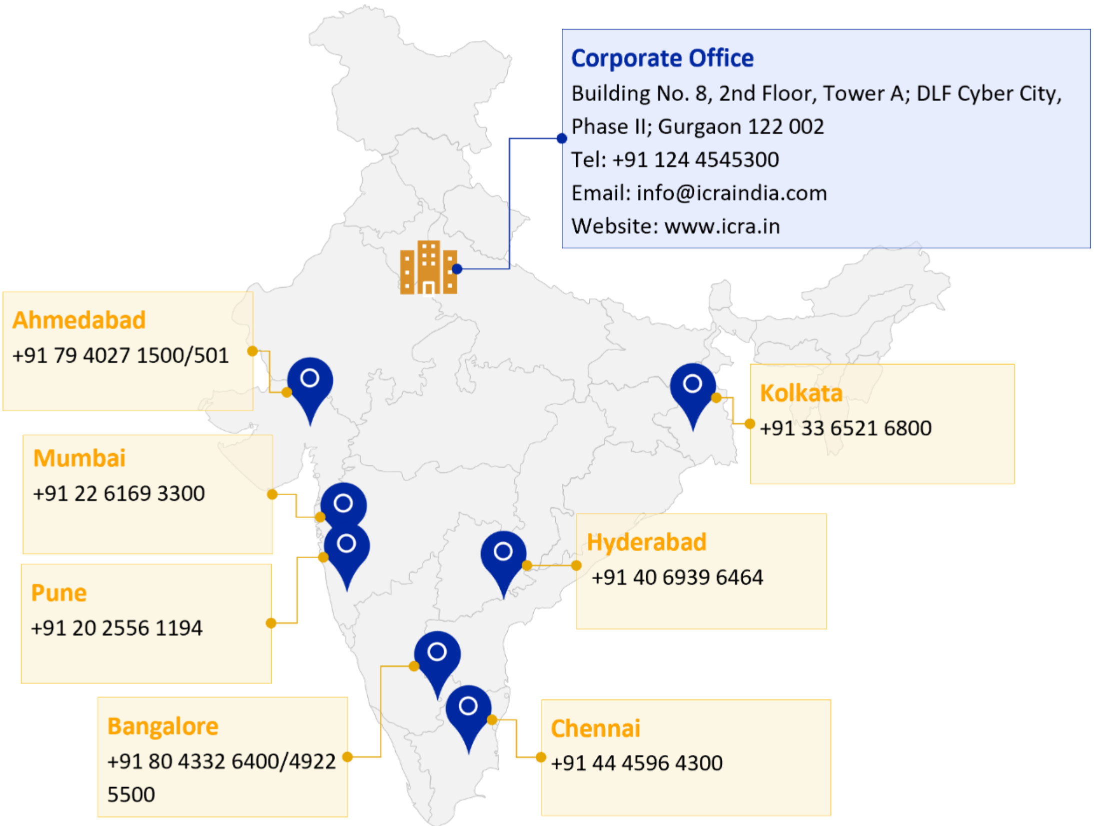

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