

G R Thanga Maligai & Sons Revised

December 14, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term / short term: Fund based limits	200.00	200.00	[ICRA]A+ / [ICRA]A1+; Reaffirmed; Outlook revised to 'Positive'
Short term: Fund based / non fund based sub-limits	(200.00)	(150.00)	[ICRA]A1+; Reaffirmed
Long term: Term loans	47.31	75.75	[ICRA]A+; Reaffirmed Outlook revised to 'Positive'
Total	247.31	275.75	

Rating action

ICRA has reaffirmed the long-term and short-term ratings of [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1+ (pronounced ICRA A one plus) respectively outstanding on the Rs. 75.75 crore¹ (enhanced from Rs. 47.31 crore) term loans, Rs. 200.00 crore fund based facilities and sub-limits aggregating to Rs. 150.00 crore (reduced from Rs. 200.00 crore) of G R Thanga Maligai & Sons (GRT Sons/ the company)². The ratings of [ICRA]A+ (Positive) / [ICRA]A1+ shall apply depending on the usage and tenor of the instruments. The outlook on the long term rating is revised from 'stable' to 'Positive'.

Rationale

The revision in outlook reflect ICRA's expectation that G R Thanga maligai (GRT) group's business and financial profile will remain supported by steady cash accruals and strong debt protection metrics over the medium term. The ratings draw comfort from GRT's established market presence in South India, promoter's vast experience, and favourable demand potential for organised players with increasing formalisation of the industry. Amidst heightened competition and regulatory interventions, GRT's ability to clock steady sales growth, achieve faster stock rotation and sustain its market leadership position in key regions buttressed by its strong brand loyalty further underpins the ratings. GRT group's financial profile remains healthy with high networth, comfortable debt protection metrics and strong liquidity position.

The ratings are however constrained by high geographical concentration on Chennai and Tamil Nadu markets, and high pricing pressure due to intensifying competition from other retailers given the limited value addition and inherent working capital intensiveness in the business. That said, the group's strong hedging practices and better financing environment with enhanced access of low cost gold metal loans (GML) mitigates the price risk impact. The ratings also consider the group's increasing exposure to the solar energy segment, wherein the group has large committed investments over the next two years. While the solar segment provides tax benefits and generates recurring income over the long term, the solar investments will keep the debt levels higher apart from limiting the group's free cash flows and return on capital employed (RoCE) levels over the medium term.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Positive

ICRA believes that GRT group's revenue growth will be supported by the strong demand for gold jewellery underpinned by the cultural affinity for gold in the southern markets and the group's increasing focus on margin accretive studded jewellery which is expected to drive margins. The ratings may be upgraded with the strengthening financial profile of the group at consolidated level, amidst the planned debt funded investments in solar segment. The outlook may be revised to 'Stable' with deterioration in accruals or debt protection metrics.

Key rating drivers

Credit strengths

Recovery in demand aid healthy revenue growth in H1FY2018 - Following a moderate revenue growth of 8.1% during FY2017 on the back of subdued domestic demand for jewellery, GRT group clocked a healthy 30.3% YoY revenue growth in H1FY2018. The strong growth reflects the demand shift from unorganised to organised segment (especially post demonetisation) apart from factors like pricing power due to strong brand loyalty and stabilisation of new stores.

Strong brand image and leading market presence in South India – GRT group's presence for over five decades in South India and the established trust and brand loyalty among customers. This is reflected in its steadily increasing sales volumes and sustained growth across its stores despite increasing competition from both organised and unorganised players. GRT has 40 showrooms as of March 2017 and is adding another 6 showrooms in FY2018.

Healthy financial profile – Though limited value addition and competition limits the scope for healthy margin expansion, GRT group's financial profile is strong marked by comfortable liquidity, capitalisation and coverage indicators. Higher share of customer advances and increased usage of low cost GML have aided the funding needs of the group apart from resulting in overall interest savings. The adjusted Total Outside Liabilities (TOL) to Tangible net worth and adjusted TOL to operating profit stood at at 1.7 times and 3.4 times as of September 2017 (as against 1.9 times and 4.1 times respectively in March 2017).

Favourable demand outlook for organised retailers – Following subdued demand in FY2017, demand for gold jewellery has been strong in H1FY2018 led by revival in rural demand, improved liquidity with fading demonetisation impact, higher number of auspicious days, strong wedding demand and large pre-buying ahead of Goods and Service Tax (GST). Stable festive demand and the regular wedding demand is expected to keep the demand sentiments strong during H2FY2018. While the demand-supply metrics remains vulnerable to any policy initiatives of the government, ICRA notes that these regulations result in enhanced formalisation of the sector thus supporting organised retailers.

Credit weaknesses

High geographical concentration risk – GRT group derives ~65% of its revenues from Chennai in FY2017 followed by 18% in rest of Tamil Nadu, and balance from Andhra Pradesh and Karnataka leading to geographical concentration risks. While the group has expanded to other markets, including overseas markets, the concentration risk is expected to remain with part of new store additions planned in Tamil Nadu.

Regulatory risks - Jewellery retail industry has been witnessing increased regulatory intervention in the last three years which impacted the operating environment and consequently the performance of jewellers. Measures like 20/80 restriction on imports, limited access to GML, mandatory PAN card disclosure requirement for purchases to Rs.2 lakh, limitation on jewellery saving schemes, imposition of excise duty, demonetisation etc., inclusion of jewellery sector under Prevention of Money Laundering Act (albeit for brief period) had its effect on both demand and supply.

Pricing pressure due to high competition - Gold jewellery retailing is competitive with large presence of large organised and unorganised players. This coupled with the limited value addition limits the pricing flexibility of the players resulting in thin operating margins. Further as the retail business is working capital intensive in nature with adequate inventory is required to be maintained across the stores, the earnings remain exposed to volatility in gold prices. That said, by employing prudent hedging policies and faster rotation of stocks, GRT mitigates the risks to a large extent.

Debt levels to remain high with committed investments in solar segments – In an attempt to have a group level diversification, GRT entered into solar energy segment two years back and has completed projects of 36 MW as of March 2017. The group has commercialised operations of another 40 MW in FY2018 and has also won bids for 120 MW projects which will be commercialised by end of FY2019. The committed investments of ~Rs. 800 crore (FY18 and FY19) is planned to be funded with 75% debt resulting in higher debt levels and low Return on Capital Employed (RoCE) over the medium term. While the sustained demand growth in jewellery business and the group's experience in having commissioned solar plants with 36 MW capacity over the past two years, is expected to support the new solar projects, the timely completion and sustained cash flows from these projects in aiding the overall financial profile needs to be seen.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of five entities in the group – G R Thanga Maligai, G R Thanga Maligai (Firm), G R Thanga Maligai and Sons, GRT Silverwares and GRT Jewellers (India) Private Limited – since all of them operate in the same line of business, have operational linkages and share a common management.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Gold Jewellery Retail Industry](#)

About the company:

G R Thanga Maligai and Sons is a partnership firm under the HUFs of Mr. G. Rajendran (Chairman of the GRT group) and his sons. The firm was established in the year 2005 where it has a large showroom established in the heart of Chennai. The entity's product profile is concentrated more towards modern designs and exquisite jewellery when compared to the other entities which market largely traditional jewellery.

About the Group:

GRT group, a closely held group with presence in jewellery retailing, hospitality and renewable energy sectors, has an established presence in the jewellery retail industry in South India, where it has been involved in retailing of gold and studded jewellery over the past five decades. From being an entity with presence only in Chennai, the group has diversified geographically with expansions across southern states in the recent past. The group currently derives around 90% of its revenues from the gold jewellery sales with the rest from sale of silver, coins and studded jewellery.

Key Financial Indicators of GRT Group (Audited)³

	FY 2016	FY 2017
Operating Income (Rs. crore)	11,548.4	12,488.5
PAT (Rs. crore)	209.8	203.0
OPBDIT/ OI (%)	4.4%	4.6%
RoCE (%)	11.6%	10.0%
Adjusted TOL/ TNW (times)	1.8	1.9
Adjusted TOL/ OPBDIT (times)	3.8	4.1
Adjusted Interest coverage (times)	8.7	5.5
NWC/ OI (%)	12.3%	12.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 December 2015	Date & Rating in FY2015 January 2015
1 Term loans	Long term	75.75	75.75	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2 Fund based limits	Long term / short term	200.00	-	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-	-
3 Fund based / Non fund based sub-limits	Short term	(150.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

³ Consolidated financials include GRT Jewellers (India) Private Limited, G R Thanga Maligai & Sons, G R Thanga Maligai (Firm), GRT Silverwares and GR Thanga Maligai

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-1	FY2015	-	FY2025	19.50	[ICRA]A+ (Positive)
NA	Term loan-2	FY2015	-	FY2025	21.25	[ICRA]A+ (Positive)
NA	Term loan-3	FY2017	-	FY2027	35.00	[ICRA]A+ (Positive)
NA	Cash credit / Working capital demand loan / Short term loan	-	-	-	200.00	[ICRA]A+ (Positive)/ [ICRA]A1+
NA	Gold metal loan (sub-limit)	-	-	-	(150.00)	[ICRA]A1+

Source: G R Thanga Maligai & Sons

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