July 29, 2021

Emerald Jewel Industry India Limited: Ratings reaffirmed; rated amount enhanced; medium-term rating placed on notice of withdrawal

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	99.00	113.81	[ICRA]A-(Stable); reaffirmed
Long-term fund-based working capital facilities	447.10	540.00	[ICRA]A-(Stable); reaffirmed
Short-term non-fund based	83.90	4.00	[ICRA]A2+; reaffirmed
Long/ Short term – Interchangeable	(388.00)	(388.00)	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Long/ Short term – Unallocated	-	2.19	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Medium term – Fixed Deposit	100.00	100.00	MA-(Stable); reaffirmed and placed on notice of withdrawal for a period of 6 months
Total	**730.00**	**760.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation reflects the expected steady growth in revenues and earnings of Emerald Jewel Industry India Limited (EJIIL) over the medium term, driven by improved demand conditions and focused marketing efforts, and EJIL's comfortable coverage metrics. EJIIL's performance in FY2021 remained largely stable, despite the pandemic-induced business disruptions witnessed in the first half, on the back of higher gold prices, steady recovery in demand during the second half of the fiscal and its established market position. As a result, EJIL's revenues and margins were largely constant in the fiscal. Revenues and earnings are expected to register growth of more than 10% in FY2022, notwithstanding the lockdown-related disruptions induced in Q1 FY2022, driven by the likely growth from the gold jewellery manufacturing segment on the back of hallmarking process made mandatory from June 16, 2021. Further, other measures such as increasing focus on Shop-in-Shop (SIS) based marketing across products, widening of dealer base for the silver division and improving the inventory turnover in the retail segment are likely to support performance over the medium term.

The ratings continue to derive comfort from the adequate coverage metrics, with the key ratios including interest coverage and debt service coverage ratios estimated at 4.2 times and 2.5 times, respectively for FY2021, and improve further over the medium term. However, its leverage and return indicators remain at moderate levels, limited by the relatively low operating margins of 3.5-4.0% generated by the manufacturing segment, the high stock levels at the end of the fiscal (anticipating surge in demand for the Akshaya Tritiya season) and the continued weak earnings generated by retail segment. Thus, the ability of the company to reduce stock levels through better stock turnover and increase profitability through higher volumes and capacity utilization levels would be key rating monitorables. With no major capital expenditure envisaged and incremental funding requirements to be met with cash accruals, ICRA expects EJIL's Total Outside Liabilities to Tangible Networth (TOL/TNW) and Return on Capital Employed (RoCE) to improve to 1.4 times and 12%, respectively, for FY2022. The ratings continue to factor in EJIL's strong market position in the jewelry industry, with a diversified business profile and large and integrated manufacturing setup, which supports its operating efficiency in the manufacturing segment. The ratings also consider the the high competitive intensity prevailing in the jewellery manufacturing and retailing industry, which limits the company's pricing flexibility and margins, and the vulnerability of earnings to volatility in gold prices and regulatory-related risks.

The Stable outlook reflects ICRA's expectation that the operational and financial performances of the company will continue to benefit from the established market position, the long-standing presence, its large and integrated manufacturing setup, the vast design library that pose high entry barriers to entrants and the extensive experience of the promoter, spanning three decades in the industry.

ICRA has placed MA-(Stable) rating for Rs. 100.00 crore Fixed Deposit programme of the company on notice of withdrawal for six months based on the request from the company and comments/no objection certificate from the company's auditor on the public deposits.

Key rating drivers and their description

Credit strengths

Strong market position in jewellery manufacturing business: EJIIL is one of the leading jewellery manufacturers with an established presence both in the manufacturing and the retail segments. Its flagship 'Jewelone' brand enjoys strong brand recall, and its performance over the years has been supported by its diversified business profile and established network across the value chain. The extensive experience of the promoters spanning over three decades has also aided performance through better operating efficiencies and strong relationship with channel partners.

Large and integrated manufacturing setup: EJIIL is one of the largest organised jewellery manufacturers with a production capacity of 36 tons of gold jewellery and 240 tons of silver jewellery per annum. Its large scale with highly integrated nature of operations, extensive design library and quality conscious manufacturing process pose strong entry barriers to new entrants as well as established retailers intending to enter the manufacturing space. EJIL's lead time for manufacturing has witnessed steady improvement over the years on the back of its strong manufacturing setup, supporting EJIL to optimise its working capital cycle for its manufacturing operations. Further, the recent capacity additions in the silver manufacturing business would aid EJIL to increase its focus on sale of margin-accretive silver jewellery and sell fashionable silver jewellery under the brand name of 'Zilara by JewelOne' under shop-in-shop model with leading textile showrooms in Tamil Nadu.

Improving formalisation of jewellery sector to support organised trade: The jewellery manufacturing sector is fragmented with presence of many unorganised players, which has squeezed the margins over the years. However, the regulatory changes mandating increased transparency and compliance are expected to create a difficult operating environment for the unorganized players. Mandatory hallmarking of gold jewellery from Jun 16, 2021 onwards shall further support the organised trade and in turn provide better opportunities for players such as EJIIL, leading to improved market share.

Credit challenges

Moderate leverage indicators and profitability – EJIL's leverage indicators have remained at moderate levels, characterised by estimated total debt to operating profits and TOL/TNW of around 3.9 times and 1.8 times, respectively, for FY2021 on the back of working capital-intensive operations. While the increase in stock levels and associated external funding for the same in the fourth quarter had attributed to that increase, leverage indicators are expected to improve in the coming quarters with liquidation of stock. Further, the operating margins and the return indicators have remained at modest levels of around 4% and 10%, respectively, for FY2021, constrained primarily by the weak earnings generated by the retail division. Tepid demand conditions in recent fiscals have limited the earnings from the retail operations, though the performance has improved in FY2021 from the preceding fiscals, supported by the inventory gains realised from higher gold prices.

Exposure to intense competition and regulatory risks: Intense competition from the unorganised players in the manufacturing segment and other established brands in the retail segment limits the company's pricing flexibility and bargaining power to some extent, consequently eroding its profitability and exposing earnings to fluctuations in gold prices. Further, increased regulatory intervention in the jewellery industry in the recent years has impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to GML (albeit for a brief period), mandatory Permanent

Account Number (PAN) disclosure requirement for purchases above Rs. 2 lakh, restrictions on jewellery saving schemes, changes in duty structures, GST implementation, inclusion of jewellery sector under Prevention of Money Laundering Act (albeit for a brief period) affected both demand and supply. Increasing supervision and cautious lending environment further restricted fund flows to the sector, hampering the store expansion plans of retailers. Nevertheless, the mandatory hallmarking of gold jewelry is expected to benefit organized players like EJIL.

Liquidity position: Adequate

EJIIL's liquidity position is likely to remain adequate, supported by the steady earnings from operations and adequate unutilised lines of credit enjoyed (cash buffer of around Rs. 30.00 crore as on May 31, 2021). While the utilisation levels had increased in recent months to around 93% of limits in lieu of the stocking ahead of the Akshaya Tritiya season, cash flows are expected to improve in the coming months with steady improvement in demand conditions and relaxations of lockdowns in key markets. The average utilisation levels over the last 12 months was at 88% and are likely to remain at around 85-90% in the coming quarters. Further, the company is likely to generate cash accruals of more than Rs. 100.0 crore per annum in FY2022, as against a combined funding requirement for debt repayment obligation and capital expenditure to the tune of around Rs. 40.0 crore over the next 12 months.

Rating sensitivities

Positive factors – Sustained growth in scale of operations and earnings coupled with improvement in working capital cycle, which result in better credit metrics and liquidity position, may result in a rating upgrade. Specific credit metrics that could lead to an upgrade of ratings include – a) TOL/TNW less than 1.3 times on a sustained basis and b) interest coverage greater than 5.0 times on a sustained basis.

Negative factors – Negative pressure on ratings will emanate if a decline in earnings or elongation of working capital cycle result in deterioration of its credit metrics and liquidity position. Specific credit metrics that could lead to a downgrade of ratings include – a) interest coverage reducing to less than 3.5 times on a sustained basis and b) TOL/TNW greater than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Emerald Jewel Industry India Limited, Emerald Jewellers DMCC (Dubai) and Indiania Jewellery Company Private Limited

About the company

EJIIL was promoted by Mr. K Srinivasan as a Private Limited Company in 2004. EJIIL is involved in the business of manufacturing and marketing of gold jewellery, under the brand 'JewelOne' and as job work for customers. Targeting both local and export markets, the company has four manufacturing facilities in Coimbatore catering to different activities – namely machine made jewellery manufacturing, hand-made jewellery, electro-forming, fusion technology, etc. Though gold jewellery has been its major source of revenue, the company also manufactures and sells diamond and silver jewellery (under it brand 'Zilara'). EJIL also retails gold jewellery through its 14 showrooms spread across South India. EJIIL has two subsidiaries at present - Indiania Jewellery Company P Limited and Emerald Jewellers DMCC, Dubai.

Key financial indicators (audited)

Emerald Jewel Industry India Limited	FY2019	FY2020
Operating Income (Rs. crore)	4,053.4	3,961.0
PAT (Rs. crore)	61.8	66.3
OPBDIT/OI (%)	2.5%	3.9%
RoCE (%)	10.1%	13.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.6
Total Debt/OPBDIT (times)	4.7	3.4
Interest Coverage (times)	3.2	3.9
DSCR (times)	2.3	2.5

Source: *Company*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 18, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 29, 2021	Jun 29, 2021	-	Mar 16, 2020	Jan 07, 2019
1	Term Loan	Long term	113.81	113.81	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund based limits	Long term	540.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Fund based limits	Short term	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+
3	Non-fund based limits	Short term	4.00	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4	Interchangeable limits	Long / Short term	(388.00)	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
5	Unallocated facilities	Long / Short term	2.19	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
6	Fixed Deposit Programme	Medium term	100.00	-	MA-(Stable); placed on notice of withdrawal for a period of 6 months	MA-(Stable)	-	MA- (Stable)	MA- (Stable)

Source: *Company*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Term Loans	Simple
Long-term fund-based working capital facilities	Simple
Short-term non-fund based	Very Simple
Long/ Short term - Interchangeable	Simple
Long/ Short term – Unallocated	Not Applicable
Medium term – Fixed Deposit	Very 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: www.icra.in

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	Nov 2017	-	Mar 2023	8.94	[ICRA]A-(Stable)
NA	Term Loan 2	Mar 2020	-	Oct 2023	12.25	[ICRA]A-(Stable)
NA	Term Loan 3	Dec 2020	-	Dec 2025	12.48	[ICRA]A-(Stable)
NA	Term Loan 4	Apr 2020	-	Apr 2022	3.25	[ICRA]A-(Stable)
NA	Term Loan 5	Feb 2021	-	Feb 2027	4.50	[ICRA]A-(Stable)
NA	Term Loan 6	Dec 2020	-	Dec 2025	16.65	[ICRA]A-(Stable)
NA	Term Loan 7	Dec 2020	-	Dec 2026	25.80	[ICRA]A-(Stable)
NA	Term Loan 8	Dec 2020	-	Dec 2026	4.25	[ICRA]A-(Stable)
NA	Term Loan 9	Dec 2020	-	Dec 2026	10.38	[ICRA]A-(Stable)
NA	Term Loan 10	Mar 2021	-	Mar 2027	4.64	[ICRA]A-(Stable)
NA	Term Loan 11	Jun 2018	-	Jan 2024	10.67	[ICRA]A-(Stable)
NA	Cash Credit	-	-	-	540.00	[ICRA]A-(Stable)
NA	Bank Guarantee	-	-	-	4.00	[ICRA]A2+
NA	Interchangeable limits	-	-	-	(388.00)	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Unallocated facility	-	-	-	2.19	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Fixed Deposit Programme	-	-	-	100.00	MA- (Stable); placed on notice of withdrawal for a period of 6 months

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Emerald Jewellers Singapore Pte Ltd	100%	Full Consolidation
Emerald Jewellers DMCC (Dubai)	100%	Full Consolidation
Indiana Jewellery Company Private Limited	72.50%	Full Consolidation

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