July 26, 2019

Bhima Jewellers: Rating of [ICRA]BBB(Stable) Reaffirmed

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	271.00	271.00	[ICRA]BBB (Stable); Reaffirmed
Long-term – Fund-based – Term Loan	42.25	42.25	[ICRA]BBB (Stable); Reaffirmed
Total	**313.25**	**313.25**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) outstanding on the Rs. 271.00-crore cash credit and the Rs. 42.25-crore term loan facilities of Bhima Jewellers (the firm). The outlook on the long-term rating continues to be Stable.

Rationale

The rating reaffirmation continues to factor in the extensive experience of the promoters in the jewellery business and the established position of the brand 'Bhima' in the south Indian market supported by the firm's stores in prime locations across Bangalore and other tier-2 markets in Karnataka. The rating remains supported by the firm's stable financial profile characterised by moderate scale of operations, expanding operating margins (up 50 bps in FY2019) on the back of improving share of studded jewellery sales, and the management's renewed focus on improving stock rotation. ICRA notes that the demand outlook for gold jewellery in India is expected to remain stable over the medium to long-term, underpinned by the strong cultural affinity for gold amidst higher number of auspicious days and growing disposable income although the rising gold prices in recent months shall restrict the demand growth. This coupled with increasing formalization of sector shall continue to benefit organized retailers (like Bhima) thus providing stable revenue visibility.

The rating, however, remains constrained by high geographical concentration with entire revenues currently derived from Karnataka market and high competitive intensity in the industry resulting in pricing pressures on retailers, cautious lending environment in the gems and jewellery sector, and exposure to regulatory risks (like recent 250 bps hike in customs duty) which has impacted the retailers' performance in the past. The ratings also consider the firm's moderate debt coverage indicators, relatively high inventory levels, exposure to adverse movement in gold prices in the absence of any formal hedging mechanism, and the risks inherent to partnership firms in the form of limited disclosures, capital continuity / withdrawal risks, etc. In an attempt to reduce geographical concentration risk, the firm is planning to open a new store in Vijayawada during H2 FY2020. This coupled with the firm's plans to move from rental space to owned premise in Koramangala is expected to increase the debt levels in FY2020. Nevertheless, the financial profile shall be supported by the firm's focus on reducing inventory levels and reduction in overall rental costs going forward.

Outlook: Stable

ICRA believes Bhima Jewellers will continue to benefit from the established market presence and experience of its promoters. The outlook may be revised to 'Positive' with substantial growth in revenue and earnings, and better working capital management, thus strengthening the financial risk profile. Conversely, the outlook may be revised to 'Negative' if there is sharp reduction in cash accruals, or stretch in the working capital cycle, or higher than expected support to its group entities, resulting in deterioration of the firm's financial profile.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the jewellery retailing industry – Bhima Jewellers, led by Mr.Krishnan Bhattar, has been in existence since 1999 and currently operates 11 stores in Karnataka with revenues of Rs.1,283.6 crore in FY2019. The group benefits from extensive experience of its promoter in the jewellery retail industry and established presence of the 'Bhima' brand of over nine decades in the south Indian jewellery retail market.

Established presence in Karnataka through multiple stores in prime locations – The firm commenced its first showroom in 1999 in Bangalore and has diversified its presence across Karnataka with seven showrooms in Bangalore and one each in Hassan, Mangalore, Udupi and Shimoga. It enjoys a strong brand name in the retail jewellery market of Karnataka supported by an experienced management team. To diversify geographically, the firm is currently setting up a new store in Vijayawada in Andhra Pradesh and is expected to start commercial operations at the same from H2 FY2020.

FY2019: Revenue growth in line with industry; margins expand – Following a healthy revenue growth of 14.3% during FY2018, the firm's revenue growth moderated to 7.9% during FY2019. This was largely in line with the industry growth of 7.7% wherein volumes were affected by elevated gold prices (leading to fall in consumer sentiments), lesser number of auspicious days and tightened credit to the sector. The firm's operating margins expanded to 5.7% in FY2019 from 5.2% in FY2018 on the back of improving share of studded jewellery sales, and better cost control measures.

Stable demand outlook for jewellery demand over medium to long term – Over the medium to long term, the gold jewellery demand growth is expected to be supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and increasing penetration of the organised sector. Given its strong brand recall of the 'Bhima' brand and recent efforts towards geographic diversification, the firm is expected to benefit from the push towards organized trade. In the near term, while higher number of auspicious days is a positive, the current elevated levels of gold prices act as key headwind for demand growth.

Credit challenges

Moderate coverage indicators – With most of its stores operating through owned mode (vis-à-vis rental mode) and with average inventory holding period of around six months, the firm's debt indicators are moderate with the interest coverage ratio of 2.2x in FY2019. The firm's inventory requirements are largely met through working capital loans and customer advances (jewellery saving scheme). With new store planned at Vijayawada (on rental mode) in H2 FY2020, the firm's working capital requirements are expected to go up. This apart, shifting of the existing Koramangala store to an owned premise is also expected to increase its debt levels in FY2020. However, the firm's focus on reducing its inventory and reduction in overall rental costs shall support the coverage indicators to a certain extent.

Intense competition and geographical concentration related risks - Gold jewellery retail business is highly fragmented and competitive; the pricing flexibility of industry players continues to remain constrained with continuous store expansions by larger retailers in recent years in addition to limited value addition in the products keeps the operating margins lower for most of the players, including the firm. Nevertheless, competition is mitigated to an extent by Bhima group's strong brand image in the Karnataka market. That said, the firm also faces geographical concentration risks with entire revenues being derived from the Karnataka market currently.

Exposure to regulatory risks and gold price volatility - Jewellery retail industry has been witnessing increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. In the last one-year, regulatory supervision has increased and lending to the gems and jewellery sector has been cautious. Further, the recent hike in customs duty by 250 bps is expected to keep the gold prices at elevated levels. The credit profile of jewellery retailers thus remains exposed to such regulatory related risks. Inherently, retail business is working capital intensive in nature as adequate inventory is required to be maintained across the stores. With limited hedging mechanism, the earnings remain exposed to volatility in gold prices. The firm hedges the price volatility risk, to an extent through its back-to-back transactions, by purchasing similar quantity as the previous day's sales. However, the risk on inventory remains during periods of sharp volatility.

Inherent risk associated with a partnership firm - Bhima Jewellers is exposed to risks associated with a partnership firm, including the risk of capital withdrawal, which can adversely impact its capital structure.

Liquidity Position:

The group's financial position remains adequate with an average of 89.4% utilization of its sanctioned working capital facilities during the 13-month period ending April 30, 2019. In terms of debt repayment, Bhima Jewellers has scheduled repayments of ~Rs.8.5 crore and Rs.7.4 crore during FY2020 and FY2021 respectively. This is comfortable as against the firm's estimated accruals. In addition to the company's Rs.10.8 crore cash balance buffer, the company also has undrawn working capital lines of credit of Rs.32.6 crore as on March 31, 2019. For the store shifting project in Koramangala, the firm has tied up long term loans of Rs.30 crore (representing ~65% of project cost) and for the store expansion in Vijayawada, the company is seeking Rs. 90 crore working capital lines with lenders.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the company

About the company:

Bhima Jewellers, operating since 1999, is a part of the Bhima Group which was started by Mr. Bhima Bhatter in Alleppey, Kerala in 1925. Bhima Jewellers, promoted by Mr. Krishnan Bhatter, son of Mr. Bhima Bhatter, runs eleven stores across Karnataka, including seven retail showrooms in Bangalore and one each in Mangalore, Udupi, Hassan and Shimoga. Apart from this, the firm also runs one exclusive silver showroom in Bangalore. Approximately 90% of its revenues are generated through the sale of gold jewellery and the balance through the sale of diamonds, silver and precious stones.

Key financial indicators (audited)

	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	1,190.0	1,283.6
PAT (Rs. crore)	21.5	29.1
OPBDITA/OI (%)	5.2%	5.7%
RoCE (%)	13.6%	15.5%
Total Debt/ TNW (times)	1.8	1.6
Total Debt/ OPBDITA (times)	4.6	3.7
Interest coverage (times)	1.9	2.2

Source: the company

Status of non-cooperation with previous CRA:

CRISIL has in its rationale published on Bhima Jewellers, dated April 25, 2018 stated the following:

"CRISIL has been consistently following up with Bhima Jewellers (BHIMA JEWELLERS) for obtaining information through letters and emails dated July 21, 2017, and September 08, 2017, among others, apart from telephonic communication. However, the issuer has remained non-cooperative. The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward-looking component as they are arrived at without any management interaction and are based on best available or limited or dated information on the company. CRISIL has withdrawn its rating on the bank facility of BHIMA JEWELLERS on the request of the company and receipt of a no objection / due certificate from its bank. The rating action is in line with CRISIL's policy on withdrawal of its ratings on bank loans."

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					July 2019	June 2018	June 2017	May 2017	-
1	Term Loan	Long-Term	42.25	13.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Cash Credit	Long-Term	271.00	**257.0**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

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

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	2016	-	FY2023	42.25	[ICRA]BBB (Stable)
NA	Cash Credit	2018/2019	-	-	271.00	[ICRA]BBB (Stable)

Source: Bhima Jewellers

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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