October 12, 2020

Anand Jewels (Indore) Private Limited: Rating reaffirmed, outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based/Cash Credit	37.50	13.50	[ICRA]BBB-(Stable); reaffirmed, outlook revised from Negative to Stable
Non-Fund based/Bank Guarantee	52.50	0	-
Fund based	0.0	136.50	[ICRA]BBB-(Stable)/A3; reaffirmed, outlook revised from Negative to Stable
Total	**90.0**	**150.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action takes into account the revival in Anand Jewels (Indore) Private Limited's (AJIPL) sales post lockdown and the added impetus received after opening the new store in Bhopal. The outlook revision further takes into account the positive response received from the new store in terms of revenues already achieved within the first month of operations. ICRA also notes the improvement in the company's liquidity aided by fund infusion from promoters and the cash flows generated from constant ongoing operations, which includes sales of low-cost inventory at higher market rates. ICRA's ratings favourably factor in AJIPL's gradually strengthening position as a regional player in Indore and Bhopal, Madhya Pradesh, as evident from its healthy revenue growth in FY2019 and FY2020. The ratings also positively factor in the company's good brand presence in the vicinity. The experience of the promoters of more than two decades in retail jewellery industry is also a positive. Further, the ratings factor in the company's hedging policy, which provides cushion against price variation risk.

However, the ratings remain constrained by the company's stretched liquidity, characterised by high utilisation levels of working capital facilities, despite improvement in Q2 FY2021. The company paid off its Gold Metal Loans (GML) dues from ICICI Bank—extended during the lockdown—once the stores re-opened in the last week of June 2020. In addition to the revenues being impacted, the fixed costs in the forms of employee payout, rentals, etc. impacted the earnings of the company till the lockdown was lifted. The ratings also remain constrained by the limited track record of the company, relatively modest scale and geographical-concentration risk as it derives revenues from two stores located in Indore and Bhopal. The new one in Bhopal has recently been inaugurated (in the last week of August 2020) and a sustained ramp up in revenues from the same is yet to be seen.

The Stable outlook on [ICRA]BBB- rating reflect ICRA's opinion that the company will continue to derive benefits from the experience of its promoters and its brand strength. However, the ramp up in the operations of the Bhopal showroom and sustainability of profitability, going forward, remain the key sensitivities for it.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The promoters have vast experience in the jewellery retail business in Indore. AJIPL's Chairman, Mr. Harbhajan Anand, has more than five decades of experience in the retail jewellery business, while Mr. Gaurav Anand, Director, has more than two decades of experience.

Increasing brand presence with additional store opening in August 2020 – The company has been promoting its products through various verticals and hence, has a good brand presence in Indore. Its top line also grew 15.8% in FY2019 to Rs. 303.3 crore and by 2.6% in FY2020 to Rs. 311.1 crore despite it losing the last two weeks of business in March 2020 due to the Covid-19-induced lockdown. The increase in revenues can primarily be attributed to higher targeting and penetrating of the lower per capita income group through an expanded product portfolio. The company has added another store in Bhopal to bolster its growth prospects.

Consistent growth in revenues till FY2020: The company has witnessed a CAGR of greater than 30% its revenues since FY2016. Despite starting off recently in FY2016, the company has achieved Rs. 311.1 crore of sales in FY2020, just from a single store.

Credit challenges

High geographical-concentration risk: The company is exposed to high geographical-concentration risk as it has only two stores, i.e. in Indore and Bhopal. Its brand presence remains limited to a single state of Madhya Pradesh. The new store in Bhopal has been recently opened and sustainable ramp up in its revenues remains to be seen.

Coverage indicators expected to improve but remain modest: The debt coverage indicators of the company deteriorated significantly due to a substantial decline in profits on account of Mark-to-Market (MTM) losses. The coverage indicators are expected to improve in FY2021 but remain modest on account of higher debt levels required to maintain inventory levels for sustainable operations in two stores.

Exposure to global pricing variations, Government policies and weak market sentiment: The dependence of gold price on global market scenarios continues to be critical, given the price volatility. This coupled with adverse Government policies and weak consumer demand across industries might impact the overall demand of gold.

Liquidity position: Stretched

The liquidity position is **stretched** as the revenues recorded in H1 FY2021 have been impacted due to lockdown in the Q1 FY2021 while the company continued to incur fixed costs. The company currently has high utilisation levels of working capital facilities. However, the promoters have infused funds to aid the liquidity.

Rating sensitivities

Positive trigger – Stabilisation of revenues and profitability resulting in the company maintaining an adequate buffer in its cash position throughout the year will be critical and may trigger an upgrade.

Negative trigger – Sustainable decline in the scale and profitability of the company might result in a downgrade. The decline in credit risk metrics resulting in deterioration in the debt coverage indicators and liquidity profile may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Gold Jewellery Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

AJIPL was established in 2008 by Mr. Gaurav Anand. It manufactures and sells gold ornaments, jewellery, precious stones and diamonds under the name Anand Jewels at M.G Road, Indore. The company's Chairman Mr. Harbhajan Anand has 50 years of experience and Mr. Gaurav Anand has 20 years of experience in the field of retail jewellery. The Anand family or Anand Corporation is a well-known business group in Madhya Pradesh, with major businesses in retail (automobile and jewellery), hospitality and real estate. At present, AJIPL has two showrooms in MP. The flagship and the biggest of the two is located at M. G. Road, a prime location in Indore. And, the second store is located at D.B. Mall, Bhopal.

Key financial indicators (Audited)

	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	262.0	303.3	311.1
PAT (Rs. crore)	5.4	7.5	2.5
OPBDIT/OI (%)	4.4%	5.1%	2.6%
RoCE (%)	12.4%	14.4%	6.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.5	2.2
Total Debt/OPBDITA (times)	6.3	4.0	10.3
Interest Coverage (times)	3.1	3.4	1.9
DSCR	2.6	2.8	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					12-October-2020	19-May-2020	30-July-2019	04-July-2018	04-August-2017
1	Fund based/ Cash Credit	Long-term	13.50	13.50	[ICRA]BBB-(Stable);	[ICRA]BBB-(Negative);	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Non-Fund based/ Bank Guarantee	Long-term/ Short-term	0	0	-	[ICRA]BBB-(Negative)/A3;	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3
3	Fund based	Long-term/ Short-term	136.5	136.5	[ICRA]BBB-(Stable)/A3;	[ICRA]BBB-(Negative)/A3;	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3

Amount in Rs. crore

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	Fund based/Cash Credit	-	-	-	13.50	[ICRA]BBB- (stable);
NA	Fund based	-	-	-	136.5	[ICRA]BBB- (Stable)/A3;

Source: AJIPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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