

Kalyan Jewellers India Limited

November 05, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore) ¹	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	350.00	253.00	[ICRA]A- (Positive); reaffirmed
Long term / short term – Fund based	2,772.00	2,777.00	[ICRA]A- (Positive) / [ICRA]A2+; reaffirmed
Short term - Fund based / Non-fund based (sub limits)	(1,440.00)	(1,465.00)	[ICRA]A2+; reaffirmed
Medium term – Fixed deposit	400.00	400.00	MA- (Positive); reaffirmed
Medium term – Fixed deposit	-	125.00	MA- (Positive); assigned
Total	3,522.00	3,555.00	

*Instrument details in Annexure - I

Rating action

ICRA has reaffirmed the ratings of [ICRA]A- (pronounced ICRA A minus)² and [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 253.0 crore (revised from Rs.350.0 crore) term loans, Rs. 2,777.0 crore (revised from Rs.2,772.0 crore) fund-based limits, and Rs. 1,465.0 crore (revised from Rs.1,440.0 crore) fund / non-fund based sub-limits of Kalyan Jewellers India Limited (KJIL)¹. ICRA has also reaffirmed the medium-term rating of MA- (pronounced M A minus) to the outstanding on the Rs.400.0 crore fixed deposit programme of KJIL. ICRA has also assigned the medium term rating of MA- (pronounced M A minus) to the Rs.125.00 crore fixed deposit programme of KJIL. The outlook on the long-term and medium-term ratings is 'Positive'.

Rationale

The ratings continue to derive support from KJIL's longstanding presence, strong brand image and design capabilities, and extensive experience of promoters in the domestic gold jewellery retail industry. The ratings also positively consider KJIL's diversified geographical presence across India, favourable product mix with steadily rising revenue share from the margin-accretive studded jewellery and strong hedging practices. This coupled with increasing formalisation of the sector shall continue to benefit organised retailers like KJIL, thus providing strong revenue visibility. The ratings continue to factor the presence of private equity (PE) player - Highdell Investment Limited (Warburg Pincus group) with ~30% shareholding in KJIL, providing comfort on systems and governance. The ratings are constrained by highly competitive intensity in the industry with consequent pricing pressures on retailers, cautious lending environment in the gems and jewellery sector, and exposure to regulatory related risks which has impacted the retailers' performance in the past. The ratings also consider KJIL's moderate debt coverage indicators, high working capital intensity and low return on capital employed (RoCE) levels. This is largely attributed to KJIL's continuous store expansions in last few years and slower than expected ramp-up of new stores. With plans to rationalise inventory across stores and new schemes to drive footfall gains, KJIL's financial profile is expected to improve going forward.

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 expects KJIL to be a key beneficiary of the shifting trade from unorganized to organized players, given its strong operational profile. This coupled with KJIL's continued store expansions shall support its revenue and earnings growth going forward. Further, the scheduled repayment in term loans and rationalization in inventory across stores is expected to result in improvement in KJIL's debt metrics going forward. The outlook may be revised to 'Stable' or 'Negative' with continued delay in ramp-up of the new stores leading to fall in profitability levels, or deterioration in cash flows or debt coverage indicators.

Key rating drivers

Credit strengths

Extensive experience of the promoters and presence of PE player - KJIL has been involved in the gold jewellery retailing business for over 25 years, led by the promoter's strong experience and commitment to business which has supported the company in establishing strong presence across the country. Further, presence of Highdell Investment Limited (Warburg Pincus group) provides additional comfort on systems and governance. KJIL had received follow-on funding of Rs.500 crore from the PE in April 2017. The proceeds were used for store expansions (India and overseas) giving KJIL a diversified geographical presence, apart from improving KJIL's liquidity position and capital structure.

Established brand equity and healthy geographical diversification - With strong brand equity (on the back of relatively high branding and advertising efforts), design capabilities and increased acceptance of its products in new geographies, KJIL is one of the major players in the domestic jewellery retail business. Though the share of revenues from South India remains high at 72% (FY2018), large part of stores opened in last three years were in non-south markets thus providing a geographically diversified presence, mitigating risks of demand slowdown in any specific region. Also, higher preference for margin-accretive studded and diamond jewellery in such markets supports KJIL's profit margins. As of September 2018, KJIL has 101 showrooms in India (against 87 in August 2017) and 32 stores in Middle Eastern markets (against 27 stores in August 2017).

Shifting demand from unorganised to organised trade to support KJIL - Gold jewellery demand is expected to remain supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and the growing penetration of organised sector. Increasing regulatory restrictions aimed towards greater transparency and higher compliance costs have resulted in a sizeable churn in the unorganised segment thus benefiting the organised players. KJIL is well positioned to tap the incremental demand, given its wide presence, brand name and strong hedging practices.

Credit challenges

Moderate debt protection metrics and high working capital intensity— With continuous store expansion in recent years resulting in elevated debt levels (due to higher stocking requirements) and slower than expected ramp up of new stores (both in India and overseas) keeps KJIL's debt coverage metrics at moderate levels (standalone Total Debt/OPBDITA of 5.6x as on March 31, 2018 and interest coverage of 2.0x during FY2018). Enhanced access of low-cost gold metal loans has supported the company to reduce interest costs substantially. KJIL's plans to rationalize inventory across stores and minimize the debt dependence shall result in improvement in debt indicators and cash flows, occurrence of the same however needs to be seen.

Intense competition limiting pricing flexibility– The gold jewellery retail business is highly fragmented and competitive; the pricing flexibility of all major players remain under pressure with continuous store expansions by larger retailers in recent years. This coupled with the limited value addition in the products keeps the operating margins lower. While KJIL has presence in higher number of regions as compared to other retailers, the competition remains high particularly in South Indian markets. That said, GST is a long-term positive for organized players who are expected to gradually capture the market share of unorganised players.

Regulatory risks– Jewellery retail industry has been witnessing increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers, including KJIL over the last few years. In the last one year, regulatory supervision has increased and lending to the gems and jewellery sector has been cautious. The credit profile of jewellery retailers remains exposed to such regulatory related risks.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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

About the company:

Kalyan Jewellers India Limited (erstwhile Kalyan Jewellers India Private Limited), managed by Mr. T.S. Kalyanaraman and his sons, is an established jewellery retail player in southern India, enjoying a longstanding presence in the market for more than two decades. As of September 2018, KJIL had 101 retail outlets in India. While the showrooms are primarily spread across the southern Indian markets of Tamil Nadu, Kerala, Andhra Pradesh, Telangana and Karnataka, the company also has operations in other markets like Gujarat, Maharashtra, Punjab, Delhi, Orissa, Rajasthan and West Bengal. In December 2013, KJIL had expanded its footprint into the Middle Eastern market with six showrooms; and as of September, the company has 32 stores in those geographies. The stores in the Middle East are operated under the entities, Kalyan Jewellers LLC (UAE), Kalyan Jewellers WLL (Qatar), and Kalyan Jewellers for Golden Jewelleries WLL (Kuwait). Highdell Investment Limited (Warburg Pincus group) currently holds 30% stake in KJIL.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	7,495.3	8,255.9	9,514.9	10,505.0
PAT (Rs. crore)	114.5	137.6	111.2	154.7
OPBDIT/ OI (%)	6.7%	6.2%	6.1%	5.9%
RoCE (%)	10.9%	10.0%	10.8%	10.9%
Total Debt/ TNW (times)	1.9	1.5	2.5	1.6
Total Debt/ OPBDIT (times)	5.8	5.9	5.9	5.4
Interest coverage (times)	1.5	2.0	1.6	2.1

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating	Date & Rating In FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				November 2018	October 2017	September 2016	March 2016	
1 Term Loans	Long Term	253.00	266.6	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A (Stable)	
2 Fundbased / non fund based (sub limits)	Short Term	(1,465.00)	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	
3 Fund based limits	Long Term / Short Term	2,777.00	2,773.3	[ICRA]A- (Positive) / [ICRA]A2+	[ICRA]A- (Positive) / [ICRA]A2+	-	-	
4 Fixed deposit	Medium Term	400.00	297.3	MA- (Positive)	MA- (Positive)	MA- (Stable)	-	
5 Fixed deposit	Medium Term	125.00	-	MA- (Positive)	-	-	-	
6 Fund based facilities	Long Term	-	-	-	-	[ICRA]A- (Stable)	[ICRA]A (Stable)	
7 Fund based facilities	Short Term	-	-	-	-	[ICRA]A2+	[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

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2015, FY2017 and FY2018	NA	FY2021	253.00	[ICRA]A- (Positive)
Short term fund based / non fund based (sub limits)	NA	NA	-	(1,465.00)	[ICRA]A2+
Long term / short term – Fund based	NA	NA	-	2,777.00	[ICRA]A- (Positive) / [ICRA]A2+
Medium term – Fixed deposit	NA	NA	-	525.00	MA- (Positive)

Source: Kalyan Jewellers India Limited

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