

January 16, 2020

## **Khimji-K.D.And Sons Private Limited: [ICRA]BBB(Stable)/[ICRA]A3+ assigned**

### **Summary of rating action**

<b>Instrument*</b>	<b>Current Rated Amount (Rs. crore)</b>	<b>Rating Action</b>
Fund based limit - Cash credit (CC)	50.00	[ICRA]BBB (Stable); assigned
Fund based limit- Gold metal loan (sublimit of CC)	(15.00)	[ICRA]A3+; assigned
<b>Total</b>	<b>50.00</b>	

*\*Instrument details are provided in Annexure-1*

### **Rationale**

The assigned ratings favourably factor in over eight decades of experience of the promoters in the gold jewellery retail business and the established brand presence of Khimji-K.D. And Sons Private Limited (KDSPL) in the Odisha market. The ratings also derive comfort from KDSPL's healthy return on capital employed and low working capital intensity of operations, aided by a relatively high stock turnover. ICRA notes the demand outlook for gold jewellery in India remains favourable over the medium to long term, underpinned by the Indians' strong cultural affinity for gold.

The ratings, however, are constrained by KDSPL's high geographical concentration in the Odisha market (as all the five stores owned by the company are in Odisha), significant concentration of sales in its flagship store in Bhubaneswar and the company's moderate scale of operations compared to other organised players having an established presence in eastern India or across the country. The ratings also take cognisance of the limited pricing flexibility due to stiff competition in the industry and limited value addition, leading to low operating profitability of KDSPL. Such risks are aggravated by the entry of large retailers in its key target markets (tier-II and tier-III cities) and the regulatory risks inherent in the industry.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that KDSPL will continue to benefit from the extensive experience of the promoters and established market position of the company in the gold jewellery retailing business in Odisha.

### **Key rating drivers and their description**

#### **Credit strengths**

**Established operational track record and strong brand presence of Khimji in Odisha** – The Khimji Group has been in the gems and jewellery business since 1936. The business was started by Late Khimji Dayabhai through a firm, which was converted into a private limited company in 1992. Supported by the promoters' long experience of over eight decades in the gems and jewellery retail industry and a strong reputation of the Khimji brand, KDSPL has a strong market position as a gems and jewellery retailer in Odisha.

**Healthy return on capital employed, supported by comfortable stock turnover ratio** – The company's comfortable stock turnover ratio (4.6 times in FY2019) reduced its working capital requirement, supporting its return on capital employed, which stood at 13.57% in FY2019.

**Favourable demand outlook for organised jewellery retailers** – Jewellery sales in India have been traditionally driven by strong cultural affinity for gold, with gold being the preferred form of jewellery. Stable demand during the wedding and festive seasons is likely to sustain in the long term. While the demand-supply position remains vulnerable to any policy

initiatives of the Government, these regulations have resulted in faster formalisation of the sector, thus supporting organised retailers like KDSPL vis-a-vis the unorganised players.

## Credit challenges

**Exposed to geographical concentration risks** – The company's presence is limited to Odisha (with all five stores in the state), which exposes it to significant geographical concentration risks. Additionally, the company plans to launch five stores in the state. As a result, KDSPL's geographical concentration is likely to continue going forward. ICRA notes that a significant portion (58% in FY2019) of the company's total sales comes from its flagship store in Bhubaneswar, which was established in 1999. With gradual addition of stores, the contribution of the flagship store reduced to an extent, though the same still remains high.

**Moderate scale of operations and low operating profitability; intense competition, limited value addition and vulnerability to gold price fluctuation impact margins** – KDSPL's scale of operations remains moderate compared to other organised players, having an established presence in eastern India or across the country, as reflected by a turnover of Rs. 482.60 crore in FY2019. ICRA notes that intense competition because of increasing presence of the large retailers in its key target markets (tier II and tier III cities) limits the pricing flexibility of the company. Besides, significant purchase of finished jewellery by KDSPL reduces its value addition and exerts pressure on its profitability. The company's operating profitability remained low in the range of 3.3%-4.0% during the period FY2015 to FY2019. Additionally, with significant dependence on gold (gold jewellery contributes around 90% to the company's total sales), KDSPL's margins remain exposed to the risks associated with gold price fluctuations.

**Exposed to regulatory risks** – The jewellery retail industry has been witnessing increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like mandatory Permanent Account Number disclosure for purchases above a certain amount, limitation of jewellery saving schemes, imposition of excise duty, demonetisation drive, implementation of the Goods and Service Tax etc. impacted both demand and supply. Increased supervision had affected the sector's overall performance in the recent years to an extent, though the unorganised players were impacted more than the organised players like KDSPL. Nonetheless, a cautious lending environment had negatively impacted the fund flow to the entire sector.

## Liquidity position: Adequate

The company's liquidity is likely to remain adequate. Its cash flow from operations remained healthy at around Rs. 20 crore in FY2019. The average utilisation of working capital limit of the company remained high at around 93.41% during October 2018 to November 2019. However, the liquidity position is likely to be supported by nominal long-term debt repayment obligation and sizeable liquid investments.

## Rating sensitivities

**Positive triggers** – ICRA may upgrade KDSPL's ratings if the company's interest coverage improves to more than 3.5 times on a sustained basis.

**Negative triggers** – Pressure on the ratings may arise if, due to weakening of profitability and/or increased borrowing, the company's interest coverage declines to less than 2.5 times on a consistent basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for entities in Gold Jewellery – Retail Industry</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company.

## About the company

The Khimji Group was promoted as a gold and diamond jewellery retailer by Late Mr. Khimji Dayabhia in 1936. Initially set up as a firm, it became a private limited company in 1992. The company is closely held and managed by the second and third generations of the promoter. KDSPL operates five stores in Odisha at present with a total area of 30,000 square feet.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	481.82	482.60
PAT (Rs. crore)	5.95	4.67
OPBDIT/ OI (%)	3.49%	3.50%
RoCE (%)	15.66%	13.57%
Total Outside Liabilities/Tangible Net Worth (times)	1.70	1.60
Total Debt/OPBDIT (times)	3.10	2.59
Interest Coverage (times)	2.58	2.56
DSCR	2.12	1.93

## Status of non-cooperation with previous CRA

CRA	Status of non-cooperation	Date of Press Release
CRISIL	CRISIL BBB (Issuer Not Cooperating)	May 28, 2019

## Any other information: None

### Rating history for past three years

	Instrument	Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (March 2019)	Current Rating 16-Jan-2020	FY2019	FY2018	FY2017
1	Cash Credit	Long-term	50.00	40.94	[ICRA]BBB (Stable)	-	-	-
2	Fund based limit – Gold Metal Loan*	Short-term	(15.00)		[ICRA]A3+	-	-	-

\*Sub-limit of cash-credit facility

### 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](http://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-limit-Cash credit	-	-	-	50.00	[ICRA]BBB (Stable)
NA	Fund-based-limit-Gold metal loan*	-	-	-	(15.00)	[ICRA]A3+
<b>Total</b>					<b>50.00</b>	

\*Sub-limit of cash-credit facility; Source: Khimji K.D. And Sons Private Limited

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

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