Press Release

Jeyachandran Industries Private Limited

March 28, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs. 80.00 cr. bank facilities of Jeyachandran Industries Private Limited (JIPL). The outlook is **'Stable'**.

Jeyachandran Industries Private Limited (the erstwhile Siddharth Builders Limited) was incorporated in 1980 and renamed in 2011. The company took over the existing business of Jeyachandran Textiles, Jeyachandran Gold House (proprietorship concerns of Mr. S. Jeyachandran) and Jeyachandran Vessels and Furniture (proprietorship concern of Mr. J. Sundaralingam) in 2011. In March 2015, the constitution was changed to private limited. The company is a retailer of gold jewellery, textiles (mainly readymade garments) and also sells home appliances and furniture. JIPL operates with six showrooms for textiles and two for gold jewellery.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the JIPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established market position**
  JIPL is promoted by Mr. Jeyachandran, who possesses experience of over four decades in textile and gold retail industry. JIPL started with 1 showroom in 1998 and currently operates total of eight showrooms in and around Chennai region. JIPL operates with six showrooms for textiles and two for gold jewellery. The company enjoys a strong market position backed by its long track record of over 40 years the business and wide customer base associated with it for generations. Acuité believes that JIPL will continue to benefit from its established market position over the medium term backed by its increasing network of stores.

- **Healthy business risk profile**
  JIPL operates with six showrooms for textiles and two for gold jewellery. The company has generated a healthy revenue growth of ~40 per cent in FY2018 over FY2017. The improvement in revenues is on account of opening of new textile store in FY2018. The revenues of the company stood at Rs.724.89 crore in FY2018 as against Rs.520.29 crore in FY2017. Further, the company has generated revenues of Rs.577 crore for 9MFY2019. The operating profitability has remained flattish at 7.24 per cent for FY2018 as against 7.53 per cent for FY2017. Return on Capital Employed (RoCE) has improved to 18.35 per cent for FY2018 as against 17.40 per cent for FY2017.

- **Healthy in financial risk profile**
  The financial risk profile of JIPL is healthy marked by healthy net worth base, debt protection metrics and coverage indicators. The net worth of the company stood healthy at Rs.196.17 crore as on 31 March 2018 as against Rs.171.25 crore as on 31 March 2017. The company is moderately leverage marked by comfortable gearing (debt-equity) of 0.53 times as on 31 March 2018 as against 0.36 times in the previous year. The increase in gearing is on account of increase in unsecured loans from directors to Rs.21.75 crore as on 31 March 2018 from Rs.7.46 crore as on 31 March 2017. The directors had infused unsecured loans for purchase of new textile store in Pallikaranai, Chennai. The coverage indicators stood healthy marked by interest coverage ratio (ICR) of 4.74 times for FY2018 as against 5.86 times for FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.79 times as on 31 March 2018 (PY: 0.62 times).
  The company is expected to undergo a capital expenditure in FY2020. Considering the current debt funded capex, the additional debt funded capex is not likely to significantly impact the financial risk

profile of the company in near to medium term. Any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

Weaknesses

- **High inventory levels for Gold**
  The company already has six retail stores at T. Nagar and Tambaran in Chennai and has also set up a new store in Pallikarnai in FY2018. The operating performance of the company is linked to local demand which in turn is influenced by the level of economic activity in and around Chennai. The company maintains high level of inventory for gold products. The company is exposes to raw material fluctuation and with inventory loss. Acuité believes that the high inventory levels expose the company to the risk of a significant inventory write down in the event of a sluggish traction in sales. This is more important in case of players such as JIPL, who deal in retail gold store, which are highly susceptible to changing consumer taste and preferences. Any buildup in inventory for the gold unit beyond existing levels will be a key monitorable.

- **Intense Competition**
  JIPL currently operates with eight showrooms of which six are for textile and two for gold. The entry of regional and national jewellery players in Chennai is expected to intensify the competitive landscape for existing players like JIPL. The non-jewellery segment also faces stiff competition from local players which would limit the company's ability to increase revenues significantly while maintaining margins. The credit profile of the company, over the medium term, will continue to be impacted by the geographical concentration of its stores in and around Chennai coupled with increasing competition from other players.

Liquidity position

JIPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.15.20 crore to Rs.28.76 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.42 crore to Rs.3.92 crore over the same period. The cash accruals of the company are estimated to remain around Rs.30-40 crore during 2019-21 while its repayment obligation are estimated to be around Rs.4.00 crore. The current ratio of the company stands healthy at 2.08 times as on March 31, 2018. The company is likely to incur capex of ~Rs.50 crore over the medium which is likely to be funded by internal accruals and external borrowing in the ratio of 70:30. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that JIPL will maintain a stable outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' in case of substantial growth in scale of operations while achieving healthy profit margins and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant build up in inventory levels or decline in revenues or profitability and higher-than-expected deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	724.89	520.29	571.94
EBITDA	Rs. Cr.	52.51	39.17	27.14
PAT	Rs. Cr.	25.46	20.49	13.74
EBITDA Margin	(%)	7.24	7.53	4.75
PAT Margin	(%)	3.51	3.94	2.40
ROCE	(%)	18.35	17.40	13.58
Total Debt/Tangible Net Worth	Times	0.53	0.36	0.34
PBDIT/Interest	Times	4.74	5.86	5.47
Total Debt/PBDIT	Times	1.96	1.56	1.86
Gross Current Assets (Days)	Days	130	138	115

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Entities in the trading - http://acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Jan-18	Cash Credit	Long term	55.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long term	15.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long term	10.00	ACUITE BBB+/Stable (Assigned)
12-Jan-18	Cash Credit	Long term	55.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long term	15.00	ACUITE BBB+/Stable (Assigned)
18-Feb-17	Cash Credit	Long term	55.00	ACUITE BBB+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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