

## Press Release

### Jeyachandran Industries Private Limited

April 14, 2021

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 80.00 Cr.
<b>Long Term Rating</b>	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. The outlook is '**Stable**'.

The rating reaffirmation is on account of sustenance of JIPL's business and financial risk profile while maintaining the liquidity position at an adequate level. The company is currently planning another capex to construct a store at Tambaram, Chennai. The total project cost is estimated at about Rs.30.0 Cr (excluding land) which is proposed to be funded by way of term loans of about Rs.15 Cr and remaining through internally generated funds. The new store operations are expected to start from FY2022 onwards which is expected to further extend comfort to the operations, going forward. Further, the rating reaffirmation also factors movement of operations towards normalcy with all 4 showrooms operating full-fledged and demonstrating an upward momentum in sales month-on-month indicating return to pre-covid sales.

Chennai based Jeyachandran Industries Private 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. S. Jeyachandran) 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 JIPL for arriving at the rating.

#### Key Rating Drivers

##### Strengths

- Reputed business house in TN market with a long-standing track record of operations**  
 JIPL is promoted by Mr. S. Jeyachandran, who possesses vast experience of over four decades in textile and gold retail industry. JIPL started with 1 showroom in 1998 and currently operates total of four showrooms in and around Chennai, Tamil Nadu region. JIPL operates with four showrooms, two 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. This has led to continuous growth in the operations upto FY2020 with revenue profile of Rs.841 Cr against Rs.780 Cr in FY2019. The operations however remained impacted due outbreak of covid and discretionary consumer spending which was limited to essentials in FY2021. Currently, the company is planning to set up another store at Tambaram in Chennai which will house the textile products. 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 capital structure; minimal reliance on bank borrowings**  
 The company's capital structure has improved over the last three years and remained healthy with respect to the tangible networth which was reported at Rs.259.7 Cr as on March 31, 2020 against Rs.221.7 Cr as on March 31, 2019. This against a modest debt profile of total debt of Rs.58 Cr as on March 31, 2020 led to a healthy debt to equity ratio and a healthy TOL/TNW ratio of below unity in the same period and historical years up to FY2018. Promoters have supported the needs of the company and have timely infused unsecured loans into the system which stood at Rs.28 Cr as on March 31, 2020. The strong networth profile coupled with infusion of funds by promoters will help the company in maintaining a healthy capital

structure in the medium term.

JIPL's moderate yet improving profitability levels compared to its interest and debt payout through the last three years have led to its healthy debt protection metrics of ICR and DSCR. ICR stood improved at 6.04 times in FY2020 against 5.15 times in FY2019. DSCR was reported at 5.08 times in FY2020 against 3.88 times in FY2019. The company had repaid its term loan of Rs.15 Cr from HDFC Bank during 2020. Acuite believes that the capital structure and debt protection metrics are expected to remain healthy in the near to medium term but, however, undergo some degree of moderation in FY2021 on account of impact of covid-19 on overall operations leading to impact on profitability as a whole.

### Weaknesses

- **Moderately working capital intensive operations; high inventory level of gold**

The operations are moderately working capital intensive mainly on account of its inventory cycle at 117 days in FY2020 as compared to 123 days in FY2019. The GCA days stood at 123 days as on March, 2020 against 131 days as on March, 2019. Since the company is operating retail showrooms, it maintains optimal inventory across stores in terms of quantity and designs at the stores. Out of this the gold inventory constitutes the major portion influenced by the economic activity in and around Chennai. As majority of the transactions are on immediate payment, debtors' cycle is negligible. Moderate inventory holding policy has led to lesser dependence on bank lines resulting in utilization at about 34 per cent for the last 11 months through February 2021. The company has an unutilized short-term debt balance of ~Rs.43 Cr for the incremental working capital requirements. Further, high gold inventory levels expose the company to the risk of significant write down of inventory on an event of sluggish movement of revenue and with changing taste and preference of customers. Acuite believes that, with the nature of business, operations are expected to be moderately working capital intensive over the medium term and any significant build up in the gold inventory beyond existing levels will remain a key rating monitorable.

- **Exposure to intense competition in the retail trading industry**

JIPL currently operates with 4 showrooms with another showroom coming up on the high streets of Chennai. However, these places are also flooded with small and large players in the same line of business. It faces intense competition in terms of product quality and pricing, which leads to continuous pricing pressure, affecting its margins. The entry of branded textile players or gold jewelry players in Chennai is expected to intensify the competitive landscape for existing players like JIPL. The non-textile 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.

### Rating Sensitivities

- Growth in the operations with sustained improvement in the profitability margins
- Higher than expected debt funded capital expenditure disrupting the liquidity position
- Pile up significant unsold inventory causing stretch in working capital management
- Ability to expand the operations through store additions

### Liquidity: Adequate

JIPL's liquidity has been assessed adequate basis the healthy position of its net cash accruals against debt repayment obligations coupled with minimal reliance on working capital bank funds. The cash accruals stood at Rs.42.6 Cr in FY2020 vis-à-vis nil repayment obligations. Further, the cash accruals are expected to remain in the range of Rs.20 Cr to Rs.40 Cr. The company is currently planning to set up another shop at Tambaram, Tamil Nadu which would house the textile products and entails a project cost of Rs.30 Cr in approx. which is planned to be funded 50 percent through debt and remaining through internal funds in the business. The company's working capital cycle remained moderate with GCA days of 123 days as on March 31, 2020 influenced majorly due to inventory holding period. Despite a moderate working capital cycle and inventory holding policy, the fund based working capital facilities were utilized meagerly at 34 percent through last one year ending February 2021. Further, the company had reported unencumbered cash and bank balance of Rs.7.66 Cr and a healthy current ratio of 3.32 times as on March 31, 2020.

### Outlook: Stable

Acuite believes JIPL's business risk profile will remain 'Stable' over the medium term from the extensive experience of promoters and long-standing presence of Jeyachandran in South Indian market coupled with its healthy financial risk profile and liquidity management. The outlook may be revised to 'Positive' in case of significant improvement in the operations with respect to store additions while also sustaining the profitability.

Conversely, the outlook may be revised to 'Negative' in case of significant pile up of unsold inventory or any greater than expected debt-funded capital expenditure which may lead to decline in cash accruals or deterioration in the financial risk profile.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	841.79	780.87
PAT	Rs. Cr.	38.71	26.15
PAT Margin	(%)	4.60	3.35
Total Debt/Tangible Net Worth	Times	0.22	0.43
PBDIT/Interest	Times	6.04	5.15

#### Status of non-cooperation with previous CRA

Not Applicable

#### Any other information

Not Applicable

#### Any Material Covenants

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-Mar-2019	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 (Reaffirmed)
19-Jan-2018	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-2018	Cash Credit	Long Term	55.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	15.00	ACUITE BBB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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