

Press Release
Khazana Jewellery Private Limited

September 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 1092.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE A-' (read as ACUITE A minus)** to the Rs.1092.00 crore bank facilities of Khazana Jewellery Private Limited (KJPL). The outlook is **'Stable'**.

About the company

Chennai based Khazana Jewellery Private Limited (KJPL) was incorporated in 1992. KJPL is promoted by Mr. Kishorekumar Jain. The company is engaged in manufacturing and retailing of Gold Jewellery, diamonds, silverwares and platinum jewellery. KJPL has established presence in domestic as well as international market through its 50 stores in India and 5 in Dubai through Khazana Gold & Diamond DMCC. The company also has its own manufacturing facilities in Mumbai, Kolkata, Chennai, Coimbatore, Rajkot, Hyderabad, and Kerala.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited, Khazana Jewellery Exports Limited (KJEL), Khazana Gold & Diamond DMCC (KGDD), Khazana Jewellery LLC and, King Jets Private Limited (King Jets) hereinafter referred to as the Khazana Group. The consolidation is on account of the common management, similarities in the lines of business and corporate Guarantee extended by Khazana Jewellery Private Limited to Khazana Gold & Diamond DMCC.

Key Rating Drivers

Strengths

Established market position with a strong brand

The company is promoted by Mr. Kishore Kumar Jain who has extensive industry experience of over four decades in the jewellery manufacturing and retailing business. The company manufactures and sells Gold Jewellery, diamonds, silverwares and platinum jewellery. The promoter started with 1 retail store in 1993 at Chennai and currently operates through 50 stores across 5 states in South India and also runs 5 retail stores at Dubai under its 100 per cent owned subsidiary namely, Khazana Gold & Diamond DMCC. The company enjoys a strong market position backed by its long track record of over two decades in the business and wide customer base associated with it for generations.

Acuite believes that KJPL will continue to benefit from its established market position over the medium term backed by its increasing network of stores.

Strong demand recovery to boost performance in near to medium term

KJPL's revenues and profits in FY2017 was affected by de-growth in gold sales due to subdued demand, limited footfall conversion from its jewellery schemes and aggressive competitive pricing in the industry. However, there has been a sharp rebound in FY2018 supported by uptick in rural demand, higher number of auspicious days, lower gold prices and opportunistic buying ahead of the GST rollout. The group has registered revenue of Rs.4,677.67 crore in FY2018 (Prov) as against Rs.3,915.44 crore.

Further, in Q1FY19 the group has registered revenue of Rs.1118.73 crores. Taking into consideration that the festive season in India falls in second half of the year and KJPL's strong brand established presence in the South, Acuite believes that the company will continue to benefit from the favorable demand scenario over the medium term leading to higher revenue growth well supported by the increase in the number of stores.

Moderate Financial and debt Leverage

The financial risk profile is moderate marked by moderate net worth, debt protection measures and gearing. The financial risk profile of the group is moderate marked by tangible net worth of Rs.663.90 crore (including quasi equity of Rs.34.67 crore) as on 31 March, 2018 (Prov) as against Rs.603.65 crore (including quasi equity of Rs.21.77 crore) in the previous year. Gearing (debt-equity) stood at 2.07 times as on 31 March 2018 (Prov) as against 2.53 times in the previous year. The interest coverage ratio stood at 2.49 times for FY2018 (Prov) as against 1.91 times in FY2017. Total outside liabilities to tangible net worth stood at 2.53 times as on 31 March, 2018 (Prov) as against 2.81 times as on 31 March 2017.

Despite operating margins being uneven the net cash accruals remained flattish during the period under study. The operating margin stood at 3.56 per cent for FY2018 (Prov) as compared to 5.47 per cent for FY2017. The group has maintained the net cash accruals Rs.69.49 crore for FY2018 (Prov) as against Rs.64.81 crore in the previous.

Weaknesses

Revenue Concentration

The group faces high store and geographic concentration risk. The group's total revenue is generated majorly from top 4 stores contributing to ~27 per cent of total revenue. The top 4 stores which contribute 27 per cent are located in Andhra Pradesh and all stores put together in Andhra Pradesh contribute to around 35 per cent of total sales. The high store concentration renders the revenue growth and profitability susceptible to the growth plans.

Exposures to group company

The total debt of Khazana Group as on 31 March 2018 (Prov) stood at Rs.1373.33 crore which further bifurcated into cash credit facility of Rs.68.69 crore, Gold Metal Loan of Rs.1237.60 crore and working capital demand loan of Rs.67.04 crore. Further, Khazana Jewellery Private Limited has extended a corporate guarantee of Rs.175.62 crores to its subsidiary, Khazana Gold & Diamond DMCC.

Susceptibility to regulatory framework, and Intense Competition in Jewellery industry:

Government's regulations aimed towards increasing transparency in the gold jewellery industry through mandatory PAN disclosures for transactions above Rs.2 lakh and compulsory hallmarking impacting the gold jewellery demand could hinder near - term growth prospects of the company.

Despite its long-standing presence in the business, KJPL faces challenges of intensifying competition from national players, such as Titan Company Limited, Tribhovandas Bhimji Zaveri Limited, Kalyan Jewellers India Limited and other regional players as well as pan India players. Further, the fragmented nature of the industry has resulted in strong competitive pressures thereby squeezing players' margins.

Outlook: Stable

Acuite believes that Khazana will continue to benefit from established regional position and extensive industry experience of promoters. The 'Outlook' may be revised to 'Positive' in case of substantial and sustained improvement in its operating profitability and working capital management. The 'Outlook' may be revised to 'Negative' in case of further decline in the group's operating profit margin, or in case of deterioration in the group's capital structure on account of higher-than-expected working capital

requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	4,677.67	3,915.44	4,493.34
EBITDA	Rs. Cr.	166.47	214.34	125.32
PAT	Rs. Cr.	43.23	42.05	(6.35)
EBITDA Margin	(%)	3.56	5.47	2.79
PAT Margin	(%)	0.92	1.07	(0.14)
ROCE	(%)	7.70	9.06	10.06
Total Debt/Tangible Net Worth	Times	2.07	2.53	3.43
PBDIT/Interest	Times	2.49	1.91	1.13
Total Debt/PBDIT	Times	7.32	6.68	13.26
Gross Current Assets (Days)	Days	158	159	162

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities- <https://www.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)

Not Applicable

*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	700.00^	ACUITE A-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	206.00^^	ACUITE A-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00^^^	ACUITE A-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00^^^^	ACUITE A-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00^^^^^	ACUITE A-/Stable
Line of Credit	Not Applicable	Not Applicable	Not Applicable	85.00^^^^^^	ACUITE A-/Stable

^Includes sublimit of Bank Guarantee

^^Includes sublimit of Bank Guarantee

^^^Includes sublimit of Bank Guarantee

^^^^Includes sublimit of Bank Guarantee and WCDL
 ^^^^^Includes sublimit of Gold Metal Loan and WCDL
 ^^^^^Includes sublimit of Cash Credit, Letter of Credit and WCDL

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About Acuité Ratings & Research:

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