

Press Release

Khazana Jewellery Private Limited

October 10, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 892.50 Cr.
Long Term Rating	ACUITE A- / Outlook: Negative (Reaffirmed) (Outlook revised from 'Stable' to 'Negative')
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and assigned short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 892.50 crore bank facilities of KHAZANA JEWELLERY PRIVATE LIMITED (KJPL). The outlook has been revised from '**Stable**' to "**Negative**".

The rating re-affirmation reflects established market position in the Southern states, extensive experience of the promoters in the gems and jewellery industry and its moderate financial risk profile. Its revenues have declined by about 6.6 per cent YoY to Rs. 4341.28 crore in FY2019 (Provisional) as against Rs. 4649.51 crore in FY2018, majorly owing to reduction in bullion and refined gold trading operations; also, owing to tepid business conditions across the stores in Tamil Nadu and Karnataka. However, the profitability has improved to 5.31 per cent in FY2019 (Provisional) as against 3.63 per cent in FY2018; supported by improving operating efficiencies, closure of loss making stores. KJPL has closed nine stores during FY2018 and 2019. The rating continues to factor in moderate working capital management and geographical concentration in revenue.

The revision in the outlook to 'Negative' is due to deterioration in operating performance vis-à-vis historical trends on account of tepid market conditions, the revision in outlook also reflects Acuite's expectation of continued moderation of operational performance coupled with reduced financial flexibility on account curtailment of working capital finance by lenders to companies in gems and jewellery sector, including KJPL amidst rising gold prices.

Chennai-based, Khazana Jewellery Private Limited was incorporated in 1992. KJPL is promoted by Mr. Kishore Kumar 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 48 stores in India and 2 in Dubai through Khazana Gold & Diamond DMCC. The company also has its own manufacturing facilities in Mumbai, Kolkata and Chennai.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited, Khazana Jewellery Exports Private Limited (KJEPL), Khazana Gold & Diamond DMCC (KGDD), Khazana Jewellery LLC and, King Jets Private Limited (King Jets), hereafter 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

- **Experienced management, long track record of operations and strong brand in south India.**

The group is promoted by Mr. Kishore Kumar Jain, who has extensive industry experience of over three decades in the jewellery manufacturing and retailing business. The group manufactures and sells gold jewellery, diamonds, silverwares and platinum jewellery. The promoter started with one retail store in 1993 at Chennai and currently operates through 48 stores across 4 states in South India and also runs 2 retail stores at Dubai. The company enjoys a strong market position in the state of Andhra Pradesh,

which contributes about 55 per cent to total revenues followed by Telangana at 18.9 per cent. To sustain the operations, the management is currently closing down stores where sales traction is slow. Acuite believes that its long track record of over three decades in the business and wide customer base associated, Khazana group will continue to benefit from its established market position over the medium term.

- **Moderate Financial risk profile**

The financial risk profile of the group is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing and TOL/TNW improved and stood moderate at 1.33 times and 1.89 times as on 31 March, 2019 (Provisional) as against 2.07 times and 2.53 times as on 31 March, 2018. The Net worth stood at Rs. 775.45 crore as on 31 March, 2019 (Provisional) as against Rs. 663.89 crore as on 31 March, 2018 (includes quasi equity of Rs. 34.67 crore). Of the total debt of Rs.1031.54 crore as on 31 March, 2019 (Provisional), unsecured loans stood at Rs. 6.12 crore and short term debt at Rs.1025.42 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 4.33 times and 0.12 times, respectively, in FY2019 (Provisional) as against 2.51 times and 0.05 times, respectively, in FY2018. The company reported net cash accruals (NCA) of Rs.125.20 crore in FY2019. The group has completed its large on-going capex of construction of administration building spread across 9 floors of about Rs.100 crore during June 2019; entire funding was through internal accruals. The cash accruals are expected in the range of Rs. 140 crore, against no major debt obligations over the next two years. Acuite however believes that the incremental working capital requirements and moderation in bank lines is likely to exert pressure on the financial risk profile over the medium term.

Weaknesses

- **Decline in revenues**

Revenue of the group have declined by 6.63 per cent YoY from Rs. 4649.51 crore in FY2018 to Rs.4341.28 crore in FY2019 (Provisional). The decline in revenues is due to decline in revenue contribution from refined gold and bullion, which is low profitable business. Further, the revenue profile was impacted by decline in contribution from the retail stores and competition in the industry particularly in Tamil Nadu and Karnataka. The group has closed few retail stores in India and in Dubai, which has been non-profitable over the past two years. In domestic stores, 36 stores showed decline in revenues, especially in Tamil Nadu and Karnataka states. The gems and jewellery (G&J) industry is characterized by a large number of organised and unorganised players with intense competition in the industry. Acuite believes that with volatile trend in jewellery industry for the past six months with prices rising up to Rs. 3900 per 10 gm and with daily volatility of about Rs.1000/10gm is affecting the sales position for the entire segment. .

- **Moderate working capital cycle**

The operations are moderately working capital intensive mainly on account of its inventory cycle at 140 days in FY2019 (Provisional) as compared to 133 days in FY2018. As the company is operating retail showrooms, it maintains optimal inventory across in terms of quantity and designs at the stores. As majority of the transactions are on immediate payment, debtors' cycle is negligible. About 50 stores with inventory of about five months lead to high utilization of its bank lines at about 98 per cent for the last 12 months through July 2019. High utilization is also attributed to curtailment of its bank lines from Rs.1322.1 crore in FY2018 to about Rs. 892.5 crore in FY2019; further, the limits are expected to be further reduced by the banks, owing to policy changes on sector exposure. Acuite believes that reduction in working capital limits is likely to increase the dependence on rising funding by way of advances from customers, thereby limiting the overall financial flexibility of the company, particularly its liquidity.

- **Geographical concentration risk**

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 57 per cent of total sales. Currently, the group is operating 50 stores of which 18 stores are in Andhra Pradesh, 15 stores in Tamil Nadu, 9 stores in Telangana, 6 stores in Karnataka and 2 stores in Dubai. Acuite believes that the high store concentration renders the revenue growth and profitability susceptible to overall market conditions in the Andhra and Telangana region.

Rating Sensitivity

- Increase in scale of operations, while maintaining stable profit margins.
- Any stretch in working capital cycle leading to deterioration of financial risk profile and liquidity.
- Any significant reduction in working capital limits.

Material covenants

- As per sanction letter of SBI, interest coverage ratio should not be below 2.60 times and TOL/TNW shall not exceed 4.0 times.
- The unsecured loans should not be withdrawn during the currency of the credit facilities.
- The overall consortium limits are assessed for Rs. 894.50 crore for FY19 and FY20 as of February 2019.
- As per SBI sanction letter, the overall limits to be reduced by Rs.100 crore by December 31, 2019.

Liquidity Position

Khazana Group has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. Khazana reported cash accruals of Rs.125.20 crore for FY2019 (Provisional) against Rs. 69.49 crore in FY2018. The cash accruals of the group are estimated to remain at around Rs.140 crore, against no repayment obligations over the medium term. The group is planning to open two-three stores in the current year and planning to complete the administration block construction which may entail a capex of about Rs.10-15 crores. Further, Working capital cycle is moderate as reflected in GCA at 140 days in FY2019 (134 days in FY2018). Bank limit utilisation is over 98 per cent for 12 months through July 2019. Part of the working capital is also funded through customer advances. The current ratio stood moderate at 1.30 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs. 28.19 crore as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Negative

Acuite has revised the outlook of Khazana group to 'Negative' due to deterioration in operating performance and expectation of continued moderation of operational performance as a result of tepid market conditions. The revision in outlook also reflects Acuite's expectation of reduced financial flexibility to support increase in scale of operations. The rating may be downgraded in case any further deterioration of sales traction or elongation of working capital cycle. Conversely, the outlook may be revised to 'stable' in case of any infusion of long term funds to support the incremental working capital requirements or improvement in gems and jewellery industry scenario.

About the Rated Entity - Key Financials - Consolidated

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	4341.28	4649.51	3915.44
EBITDA	Rs. Cr.	230.48	168.93	214.34
PAT	Rs. Cr.	107.63	43.23	42.05
EBITDA Margin	(%)	5.31	3.63	5.47
PAT Margin	(%)	2.48	0.93	1.07
ROCE	(%)	11.85	7.64	9.06
Total Debt/Tangible Net Worth	Times	1.33	2.07	2.53
PBDIT/Interest	Times	4.33	2.51	1.91
Total Debt/PBDIT	Times	4.18	7.36	6.68
Gross Current Assets (Days)	Days	140	134	159

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
07-Sep-2018	Cash Credit	Long Term	700.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	206.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE A- / Stable (Assigned)
	Line of Credit	Long Term	85.00	ACUITE A- / 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
Metal Gold Loan [^]	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE A2+ (Assigned)
Cash Credit ^{^^}	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A- / Negative (Reaffirmed and Outlook revised)
Line of Credit [*]	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A- / Negative (Reaffirmed and Outlook revised)
Cash Credit [#]	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A- / Negative (Reaffirmed and Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A- / Negative (Reaffirmed and Outlook revised)
Metal Gold Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A2+ (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	199.50	ACUITE A- (Withdrawn)

[^]CC is the sublimit to the extent of Rs.600 crore.

^{^^}SBLC/BG is the sublimit to the extent of Rs.150 crore.

^{*}CC/WCDL/LC cum BG is the sublimit to the extent of Rs.75 crore.

[#]BG/SBLC is the sublimit to the extent of Rs.40.00 crore

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About Acuité Ratings & Research:

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