Press Release

Khazana Jewellery Private Limited

February 18, 2020

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating at '**ACUITE A-**' **(read as ACUITE A minus)** on the Rs. 892.50 crore bank facilities of KHAZANA JEWELLERY PRIVATE LIMITED (KJPL). The outlook has been revised from **'Negative'** to **'Stable'**.

The revision in outlook reflects sustenance of KJPL's operating performance in 9MFY2020 despite muted industry scenario. The revision in outlook also reflects retention of financial flexibility to manage its working capital, aided by strong inflow of advances from customers and in part by lower than anticipated curtailment of working capital finance by its lenders. The revenues of the company for the period April – December 2019 stood around Rs.3,456 Cr while it generated operating profit margin of around 8.7 per cent during the same period. The improvement in profitability levels attributed to increase in gold prices and closure of loss-making stores to reduce its fixed costs.

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. 4343.95 crore in FY2019 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 5.54 per cent in FY2019 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.

Chennai-based, Khazana Jewellery Private Limited (KJPL) 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

Acuité has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited (KJPL), 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. Acuité 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 1.36 times and 1.93 times as on 31 March, 2019 as against 2.07 times and 2.53 times as on 31 March, 2018. The Net worth stood at Rs. 764.39 crore as on 31 March, 2019 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.1038.97 crore as on 31 March, 2019, unsecured loans stood at Rs. 13.55 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 4.62 times and 0.13 times, respectively, in FY2019 as against 2.51 times and 0.05 times, respectively, in FY2018. The company reported net cash accruals (NCA) of Rs.132.64 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. 140-150 crore, against no major debt obligations over the next two years. Acuité believes that the financial risk profile of the group is expected to moderate with regular accretions to reserves and in the absence of major debt funded capital expenditure.

Weaknesses

- **Decline in revenues**

Revenue of the group have declined by 5.54 per cent YoY from Rs. 4649.51 crore in FY2018 to Rs.4343.95 crore in FY2019. 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.

- **Moderate working capital cycle**

The operations are moderately working capital intensive mainly on account of its inventory cycle at 142 days in FY2019 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 December 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 and to Rs.842.50 crore by end of 9MFY2020; The company has managed working capital requirements through customer advances which increase from Rs.188.15 crore as on 31 March, 2018 to Rs.325.60 crore as on 31 March, 2019 and to Rs.384.0 crore as of 31 Dec, 2019. Acuité believes that, with the nature of business, operations are expected to be working capital intensive over the medium term.

- **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. Acuité 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.

Liquidity Position: Adequate

Khazana Group has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. Khazana reported cash accruals of Rs.132.64 crore for FY2019 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 next 12 months 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 142 days in FY2019 (134 days in FY2018). Bank limit utilisation is over 98 per cent for 12 months through December 2019. Part of the working capital is also funded through customer advances. The current ratio stood moderate at 1.31 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs. 28.19 crore as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that Khazana group will maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the group registers healthy growth in its revenue, while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position

About the Rated Entity - Key Financials – Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	4343.95	4649.51
PAT	Rs. Cr.	108.29	43.23
PAT Margin	(%)	2.49	0.93
Total Debt/Tangible Net Worth	Times	1.36	2.07
PBDIT/Interest	Times	4.62	2.51

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-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.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

10-Oct-2019	Metal Gold Loan	Short Term	600.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	150.00	ACUITE A- / Negative (Reaffirmed and outlook revised from 'Stable' to 'Negative')
	Line of Credit	Long Term	75.00	ACUITE A- / Negative (Reaffirmed and outlook revised from 'Stable' to 'Negative')
	Cash Credit	Long Term	40.00	ACUITE A- / Negative (Reaffirmed and outlook revised from 'Stable' to 'Negative')
	Cash Credit	Long Term	18.00	ACUITE A- / Negative (Reaffirmed and outlook revised from 'Stable' to 'Negative')
	Metal Gold Loan	Short Term	9.50	ACUITE A2+ (Assigned)
	Proposed	Long Term	199.50	ACUITE A- (Withdrawn)
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	550.00	ACUITE A-/Stable (Reaffirmed)
Cash Credit^^	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)

Line of Credit*	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
Cash Credit#	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
Metal Gold Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A-/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A-/Stable (Reaffirmed)

^CC is the sublimit to the extent of Rs.550 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:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.