

## Press Release

**Khazana Jewellery Private Limited**

December 02, 2020



**Rating Upgraded, Assigned, Withdrawn**

<b>Total Bank Facilities Rated*</b>	Rs. 1070.25 Cr. (Enhanced from Rs. 892.50 Cr.)
<b>Long Term Rating</b>	ACUITE A / Outlook: Stable (Upgraded from ACUITE A- / Stable)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A**' (**read as ACUITE A**) from **ACUITE A-** (**read as ACUITE A minus**) on the Rs.975.00 crore bank facilities and assigned the long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs.95.25 crore bank facilities of Khazana Jewellery Private Limited (KJPL or Khazana Group). The outlook is 'Stable'.

Acuité has withdrawn the long term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs.27.25 crore bank facilities of KJPL.

The upgrades of ratings takes cognizance of the improvement in operational metrics supported by its diversified geographical presence, strong brand repute, favourable product mix with rising revenue and profitability and vast experience of promoters in jewellery retail industry. The rating is further supported by its healthy financial risk profile with healthy cash accruals, moderate capital expenditure requirements, comfortable leverage metrics, strong liquidity and healthy return on capital employed. The rating continues to remain constrained by high working capital intensity, volatility in gold prices, inherent regulatory risks, intense competition and fragmented industry structure.

Incorporated in 1992, Chennai-based Khazana Jewellery Private Limited is promoted by Mr. Kishore Kumar Jain. The company is engaged in manufacturing and retailing of Gold Jewellery, diamonds, silverwares and platinum jewellery. The company operates 49 showrooms, 18 in Andhra Pradesh, 14 in Tamil Nadu, 9 in Telangana, 6 in Karnataka, and one in Odisha, Pondicherry.

### Analytical Approach

Acuité has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited, Khazana Gold & Diamond DMCC (KGDD) and Khazana Jewellery LLC, 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. Extent of consolidation is full.

### Key Rating Drivers

#### Strengths

##### • Experienced Management and strong brand equity in Southern India

Khazana Jewellery has established itself as a strong brand among the south Indian jewellery retailers. The group is promoted by Mr. Kishore Kumar Jain, who has extensive industry experience of over 3 decades in the jewellery manufacturing and retailing business. The promoter's vast experience, coupled with a focus on selling jewellery designs, suiting the specific tastes and preferences of customers enabled the group to establish strong brand equity in the Southern region. The Group has built a loyal customer base amidst competition from organised and unorganised players and has garnered a stable market share in the region it operates supported the repeated business and volume growth over the years. The company has 49 stores (as of August 2020) and commands a strong brand name in the states of combined Andhra Pradesh (AP), Tamil Nadu, and Karnataka (cumulatively contributes ~98 percent of sales), which has supported its revenues over the past few years. Acuité believes that its long track record, promoters' extensive experience, long association with the skilled artisans, diversified product styles, consistency in the launch of new designs are expected to continue to support the Khazana group's market position over the medium

term.

- **Improved Operating Profitability**

Khazana Group's revenue increased by 12.28 percent to Rs.4877.37 Cr in FY20 (FY19: Rs.4343.95 Cr) and along with consistent improvement in its profitability margins over the past three years ending FY20. The same is evident in its operating margin which has improved to 8.84 percent in FY20 (FY19: 5.54 percent; FY18: 3.63 percent) and PAT margin has improved to 4.10 percent in FY20 (FY19: 2.49 percent; FY18: 0.93 percent) on account of higher gold realisations, higher usage of low cost gold metal loans (GML), rationalization across the product portfolio and retail stores, focus on cost control measures, higher making charges.. The average realisation from gold ornaments increased to about Rs.3, 870/gram in FY20 (FY19: Rs.3, 360/gram). Khazana Group's RoCE was comfortable and healthy at 19.67 percent in FY2020 (FY19: 11.75 percent; FY18: 7.63 percent) aided by improved operating profits and backed by efficient inventory management practices. Acuite believes that the sustainability of operating margins at current levels would remain the key rating factors over the medium term.

- **Healthy financial risk profile**

Khazana Group's financial risk profile is healthy, marked by healthy net worth, comfortable capital structure and healthy debt protection metrics. The tangible net worth of Group is healthy at around Rs.1009.43 crore as on 31 March, 2020 as against Rs.777.94 crore as on 31 March, 2019 (includes quasi equity of Rs. 45.78 crore) due to healthy accretion to reserves. The gearing and total outside liabilities to total net worth (TOL/TNW) are comfortable, stood at 0.90 times and 1.38 times as on 31 March, 2020 vis-à-vis 1.32 times and 1.88 times as on 31 March, 2019. The debt protection metrics has improved; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 8.71 times and 0.27 times, respectively, in FY2020 as against at 4.62 times and 0.13 times, respectively, in FY2019. Group's Debt/EBIDTA is comfortable at 2.20 times (4.07 times in FY2019). Acuité believes that the group's financial risk profile will remain healthy over the medium term supported by long term strategic equity investment and absence of any significant debt-funded capital expenditure plan.

## Weaknesses

- **High working capital intensity**

Khazana Group's operations' are highly working capital intensive in nature as evident from its Gross Current Assets (GCA) of in the range of 132-156 days over the last 3 years ending March, 2020. The high GCA is owing to high inventory levels in the range of 133-162 days as the company is operating retail showrooms, it maintains optimal inventory across showrooms in terms of quantity and designs at the stores. The working capital intensity is likely to remain at elevated levels, owing to the nature of the industry. As the majority of the transactions are on immediate payment, debtors' cycle is negligible. About 49 stores with inventory of about five months lead to high utilization of its bank lines at about 93 per cent for the last 9 months through August 2020. Acuité believes that, Jewellery retailing is inherently working capital intensive on account of the optimal inventory required to be maintained across the stores, hence, the dependence on working capital loans remains high and Group's ability to improve stock rotation will be critical in improving the working capital intensity.

- **Moderate impact of Covid-19 on revenue and profitability in FY2021; exposure to regulatory risks remains**

Khazana Group remains exposed to the vulnerability of gold jewellery demand to gold price fluctuations. There was a steep revenue decline in Q1 FY2021 on account of the stores remaining non-operational on account of Covid-19. Group had reported its operating income of Rs.1550 Cr in H1FY21. Acuité believes that Khazana Group is expected to see a revenue downfall of 25 percent-30 percent in FY21, followed by a sharp recovery in FY22.

Increased regulatory intervention in jewellery industry in the recent years has impacted the demand and supply scenario in the industry. In the long term, regulatory measures such as hallmarking, the requirement of permanent account number, mandatory disclosure for purchases above threshold limits, restrictions on jewellery saving schemes, increase in import duty, introduction of the sovereign gold bond schemes to shift consumer preference away from physical gold. The industry remains exposed to regulatory interventions and gold price volatility, which would continue to impact the demand-supply scenario. Gold jewellery retailing is a highly-fragmented segment, with the presence of large organised players and numerous unorganised ones. Acuite believes that KJPL will remain exposed to regulatory risks over the medium term.

### **Liquidity Position: Adequate**

Khazana Group's has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.242.74-69.49 Cr during the last three years through 2019-20, against negligible maturing debt obligations. The cash accruals are estimated to remain around Rs. 170 - 250 Cr during 2021-23 against negligible debt obligations. KJPL has debt repayments of Rs. 46.60 crore on its Covid loans commencing from FY2022 and minimal capex commitments in FY2021-FY2023, which can be adequately serviced through its internal accruals.

The group's operations are working capital intensive as marked by Gross Current Assets (GCA) of in the range of 132-156 days over the last 3 years ending March, 2020. This has led to higher reliance on working capital borrowings, its working capital limits in the group remains utilized at 93 percent during the last 9 months period ended in August 2020. Group has also availed the emergency COVID line of credit of Rs. 70.25 crore from one of its lenders, providing cushion to its liquidity position. The current ratio of the group stands comfortable at 1.50 times as on March 31, 2020. Acuite 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.

### **Rating Sensitivities**

- A significant increase in the scale of operations, through diversification
- An elongation of the working capital cycle
- Fall in the operating profitability and/or deterioration in the liquidity position

### **Outlook: Stable**

Acuité believes that Khazana group will maintain a 'Stable' outlook over the medium term, owing to its experienced management, long track record of operations, established brand presence. 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**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	4877.37	4343.95
PAT	Rs. Cr.	200.21	108.29
PAT Margin	( percent)	4.10	2.49
Total Debt/Tangible Net Worth	Times	0.90	1.32
PBDIT/Interest	Times	8.71	4.62

### **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
18-Feb-2020	Metal Gold Loan	Long Term	550.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	150.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
	Line of Credit	Long Term	75.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
	Cash Credit	Long Term	40.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
	Cash Credit	Long Term	18.00	ACUITE A- / Stable (Reaffirmed and Outlook revised)
	Metal Gold Loan	Long Term	9.50	ACUITE A-/Stable (Reaffirmed)
	Proposed	Long Term	50.00	ACUITE A-/Stable (Reaffirmed)
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 (Upgraded from ACUITE A-/Stable)
COVID 19 emergency credit line (CECL)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00^	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
COVID 19 emergency credit line (CECL)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A/Stable (Assigned)
Line of Credit	Not Applicable	Not Applicable	Not Applicable	52.50#	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
COVID 19 emergency credit line (CECL)	Not Applicable	Not Applicable	Not Applicable	5.25	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00@	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	182.50	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A (Upgraded and Withdrawn)*
Gold Metal Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A (Upgraded and Withdrawn)*

\*Change in bank(s); excess /remainder reflected as Proposed Bank Facility

Sublimit:

\$CC is the sublimit to the extent of Rs.550 crore.

^SBLC/BG is the sublimit to the extent of Rs.150 crore and WCDL is sub limit up to Rs.90 crore.

#CC/WCDL/SLC cum BG is the sublimit to the extent of Rs.52.50 crore.

@BG/SBLC is the sublimit to the extent of Rs.40.00 crore

&GML is the sublimit to the extent of Rs.10 crore.

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**About Acuité Ratings & Research:**

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