Press Release

Khazana Jewellery Private Limited

February 28, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1070.25	ACUITE A+ | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	1070.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE A+' (read as ACUITE A plus)** from **ACUITE A (read as ACUITE A)** on the Rs.1070.25 Cr bank facilities of Khazana Jewellery Private Limited (KJPL). The outlook is 'Stable'.

The rating upgrade factors in the expected improvement in the business performance of KJPL over the medium term driven by favourable demand scenario and a steady shift witnessed towards organised players in the industry. KJPL is expected to register a revenue growth of more than 10 percent in the current fiscal FY2022 vis-à-vis 6.11percent growth in FY2021 and 12.45 percent in FY2020 despite the challenges of lockdown during the pandemic. The rating also takes cognizance of the improvement in operational metrics supported by its diversified geographical presence, strong brand, favourable product mix with rising revenue and profitability along with vast experience of promoters in jewellery retail industry. The rating is further supported by its healthy financial risk profile, comfortable leverage metrics, strong liquidity and healthy return on capital employed. These rating strengths are partly offset by high working capital intensity, volatility in gold prices, inherent regulatory risks, intense competition and fragmented industry structure.

About Company

Incorporated in 1992, Chennai-based Khazana Jewellery Private Limited is promoted by Mr. Kishore Kumar Jain. The Company is engaged in the business of manufacturing, sale and trading of gold jewellery, diamond studded jewellery and silver items through its retail outlets in India. The company operates 41 retail showrooms across Andhra Pradesh (20 showrooms), Telangana (6), Tamil Nadu (9), Karnataka (4), Pondicherry (1), Orissa (1).

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited, along with its wholly-owned subsidiary, namely Khazana Gold & Diamond DMCC (KGDD) hereinafter, referred to as the Khazana Group. The consolidation is on account of similarities in the lines of business.

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 second generations of promoters are already involved in the day-to-day operations of the business. The promoter's vast experience, coupled with a focus on 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 41 stores (as of December, 2021) and commands a strong brand name in the states of Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka (cumulatively contributes ~98 percent of sales). Khazana is among India's top five retail gold jewellery companies, accounting for about ~9.37 percent of the total organised market share as per Centre for Monitoring Indian Economy (CMIE). Acuité believes that the promoters' extensive experience in the jewellery retail industry and established presence in most of its key regions supports its operational performance, as illustrated in the steady revenue growth over the years.

Improved revenues and profitability

Khazana group's revenues are consistently improving over the past 3 years on account of established market position, strong brand loyalty, favourable gold prices and favourable demand conditions resulted. The Groups' revenues grew by ~6.11 percent to Rs. 5173.96 Cr in FY21 (FY20:Rs.4876.14 Cr; FY19: Rs.4336.48 Cr). The company is likely to register a revenue growth of more than 10 percent in the current fiscal; in 9M FY2022 Khazana group recorded revenues of Rs.4405.81 Cr. The operating margin h has improved to 9.71 percent (FY20: 8.82 percent; FY19: 5.54 percent) and PAT margin has improved to 6.10 percent in FY21 (FY20: 4.11; FY19: 2.50 percent) supported by favourable gold prices resulting in inventory gains and higher gold realisations, higher usage of low cost gold metal loans (GML), and focus on cost control measures involving cost rationalization across the product portfolio and retail stores,. The average realisation from gold ornaments increased to Rs.5217.42/gram in FY2021 as against Rs.3, 873/gram in FY20 (FY19: Rs.3, 360/gram). Khazana Group's RoCE has consistently improved and healthy at 22.63 percent as against 19.67 percent in FY20 (FY19: 11.75 percent; aided by improved operating profits and backed by efficient inventory management practices.

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.1329.31 Cr as on 31 March, 2021 as against Rs.1009.43 Cr as on 31 March, 2020 due to healthy accretion to reserves. The gearing and total outside liabilities to total net worth (TOL/TNW) are comfortable, stood at 0.66 times and 1.12 times as on 31 March, 2021 vis-à-vis 0.90 times and 1.48 times as on 31 March, 2020. The debt protection metrics has improved; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 11.07 times and 0.40 times, respectively, in FY2020 as against at 8.71 times and 0.27 times, respectively, in FY2020. Group's Debt/EBIDTA is comfortable at 1.73 times in FY2021 (FY2020:2.20 times). Acuité believes that the group's financial risk profile will remain healthy over the medium term.

Favourable growth prospects for organised jewellery retailers

Increasing measures in the jewellery segment for greater transparency and higher compliance costs has resulted in a sizeable churn in the unorganised segment, benefiting organised players such as KJPL. Further, regulatory changes such as the mandatory hallmarking of gold jewellery from Q2 FY2022 have supported organised trade and would continue to provide better opportunities for Khazana which has an extensive presence in tier 2/3 markets. KJPL is well positioned to tap the incremental demand, given its reputed brand name and wide presence. Moreover, its expanding presence in the South markets and widening customer network have supported its revenue base. While elevated gold prices and the Covid-19 pandemic impacted discretionary spend and jewellery demand in the recent past, the medium-to-long term outlook, however, remains favourable. Acuité believes that KJPL's performance is expected to continue to improve over the medium term owing to favourable growth prospects for the organised sector given the large industry size and a fragmented structure.

Weaknesses

High working capital intensity

Jewellery retailing business is inherently working capital intensive because of the optimal inventory levels required to be maintained across the stores, given the need to display varied designs of jewellery to customers. Khazana Group's operations' are highly working capital intensive in nature as evident from its Gross Current Assets (GCA) of in the range of 143-166 days over the last 3 years ending March 31, 2021. The GCA is owing to high inventory levels in the range of 142-179 days and the working capital intensity is likely to remain at same levels, owing to the nature of the industry. As the majority of the transactions are on immediate payment, debtors' cycle is negligible. Its utilization of bank limits are at about 90 per cent for the last 9 months through December 2021.Acuité believes that, Jewellery retailing is inherently working capital intensive on account of the inventory requirement across the stores, hence, the dependence on working capital loans remains high.

Exposed to geographical concentration risk

The company is exposed to geographical concentration risk, with a major presence in Andhra Pradesh. It derives about ~70 percent of its revenues from Andhra Pradesh and ~15 percent from Telangana and ~10 percent from Tamilnadu and rest from other states. However, with a long track record, the company has a strong customer base and market share in its core region, helping it reduce this risk. While profitability is susceptible to fluctuation in gold prices, there was a sharp improvement in Khazana's profitability in FY2021, supported by higher gold realisations resulted in higher inventory gains despite a decline in gold sales volume. In retail jewellery business, raw materials constitute over 90 percent of its operating cost. Gold jewellery sales account for ~94 percent of the Company's revenue, so its profitability remains susceptible to gold price movements. However, hedging practices adopted by the management reduces this risk to an extent. In 9M FY2022, Company registered the operating margin about 6.50 percent which is expected to be maintained in the upcoming quarters.

Intense competition and exposure to regulatory risks

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, and introduction of the sovereign gold bond schemes may 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. However, the company has been able to establish itself as one of the largest jewellery retailers across South India over the last few years and has steadily witnessed an improvement in its overall profit margins.

ESG Factors Relevant for Rating

KJPL is engaged in the manufacture and retailing of gold and other types of jewellery. Generally, the manufacturing and the retail sectors are primarily exposed to governance risks associated with regulatory compliance, business ethics, management compensation, board independence & diversity, role of the audit committee and the quality of financial audit and controls. As regards the social aspects, employee safety and employment quality, responsible procurement, community support & development as well as product safety & quality are key material issues. GHG emissions, material efficiency, waste management, environmental management, energy efficiency and green supply chain are significant environmental issues in the manufacturing industry. The company has built a strong retail jewellery stores in South India over the last three decades which reflects the continuing trust of its clients in its business practices. The business is primarily managed by the promoter but they have one independent director in the board of directors. KJPL's policies for employee benefits and raw material procurement through metal loans are adequate. It has constituted a CSR Committee and has formulated a CSR policy in line with the guidelines in the Companies Act 2013. The company's ability to adhere to the regulatory aspects in its existing business in a consistent manner and to resolve the past tax claims will be the key aspects for its ESG assessment going forward.

Rating Sensitivities

- Business diversification and better inventory management
- Substantial increase in the working capital requirements leading to elevated levels of debt
- Significant deterioration in the working capital cycle

Material Covenants

None

Liquidity Position: Strong

Khazana Group's liquidity is strong with healthy cash accruals with no major capex plans in the near term and no long-term debt repayment obligations. However, it is partly constrained by high working capital intensive in nature of its operations. The group generated cash accruals of Rs.356.74-132.64 Cr during the last 3 years ending March 31, 2021, as against miniscule maturing debt obligations during the same period. The cash accruals are estimated to remain around Rs. 250-350 Cr during 2022-24 against negligible debt obligations. The group's operations are working capital intensive as marked by Gross Current Assets (GCA) of in the range of 137-174 days over the last 3 years ending March 31, 2021.This has led to higher reliance on working capital borrowings, its working capital limits in the group remains utilized at 90 percent during the last 9 months period ended in December 2021.The current ratio of the group stands comfortable at 1.74 times as on March 31, 2021 and it has It has the cash and liquid investment of ~Rs. 155.75 Cr as on March 31, 2021 also provides additional comfort to liquidity. The group's liquidity is further augmented by advances from customers, which increased to Rs.427.90 Cr in FY21 (FY20: 399.45 Cr). The inflow from the schemes is likely to grow in FY22 as the loyal middle-class customers continue to invest in the Khazana brand. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments 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, long track record of operations and 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	5173.96	4876.14
PAT	Rs. Cr.	315.59	200.21
PAT Margin	(%)	6.10	4.11
Total Debt/Tangible Net Worth	Times	0.66	0.90
PBDIT/Interest	Times	11.07	8.71

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: 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

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Dec 2020	Cash Credit	Long Term	50.00	ACUITE A | Stable (Assigned)
	Metal Loan	Long Term	9.50	ACUITE A (Withdrawn)
	Cash Credit	Long Term	40.00	ACUITE A | Stable (Upgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	5.25	ACUITE A | Stable (Assigned)
	Standby Line of Credit	Long Term	52.50	ACUITE A | Stable (Upgraded from ACUITE A- | Stable)
	Proposed Bank Facility	Long Term	182.50	ACUITE A | Stable (Upgraded from ACUITE A- | Stable)
	Metal Loan	Long Term	550.00	ACUITE A | Stable (Upgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	150.00	ACUITE A | Stable (Upgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	15.00	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE A (Withdrawn)
	Cash Credit	Long Term	25.00	ACUITE A | Stable (Assigned)
18 Feb 2020	Cash Credit	Long Term	18.00	ACUITE A- | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	50.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE A- | Stable (Reaffirmed)
	Metal Loan	Long Term	9.50	ACUITE A- | Stable (Reaffirmed)
	Metal Loan	Long Term	550.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	150.00	ACUITE A- | Stable (Reaffirmed)
	Standby Line of Credit	Long Term	75.00	ACUITE A- | Stable (Reaffirmed)
10 Oct 2019	Proposed Bank Facility	Long Term	199.50	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	150.00	ACUITE A- | Negative (Reaffirmed)
	Metal Loan	Short Term	600.00	ACUITE A2+ (Assigned)
	Metal Loan	Short Term	9.50	ACUITE A2+ (Assigned)
	Standby Line of Credit	Long Term	75.00	ACUITE A- | Negative (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE A- | Negative (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE A- | Negative (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE A- | Stable (Assigned)
		Long		

07 Sep 2018	Cash Credit	Term	206.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE A- | Stable (Assigned)
	Standby Line of Credit	Long Term	85.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	700.00	ACUITE A- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A+ | Stable | Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	550.00	ACUITE A+ | Stable | Upgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+ | Stable | Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+ | Stable | Upgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+ | Stable | Upgraded
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+ | Stable | Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.75	ACUITE A+ | Stable | Upgraded
Bank of Baroda	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	52.50	ACUITE A+ | Stable | Upgraded

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.