



Press Release
Khazana Jewellery Private Limited
August 29, 2022
Rating Reaffirmed & Withdrawn

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Bank Loan Ratings	1070.25	ACUITE A+ Reaffirmed & Withdrawn	-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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuité has reaffirmed and withdrawn its long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.1,070.25 Cr bank facilities of Khazana Jewellery Private Limited (KJPL or Khazana Group). The rating withdrawal is in accordance with Acuite's policy on withdrawal of ratings. The rating is being withdrawn on account of request received from the company and no objection certificate (NOC) received from the banker.

About the 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 43 retail showrooms across Andhra Pradesh (21 showrooms), Telangana (7), Tamil Nadu (9), Karnataka (4), Pondicherry (1), Orissa (1).

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Khazana Jewellery Private Limited, Khazana Gold & Diamond DMCC (KGDD) hereinafter, referred to as the Khazana Group. The consolidation is on account of the common management, similarities in the lines of business. Extent of Consolidation: Full Consolidation.

Key Rating Drivers

Strengths

Experienced Management and strong brand equity in the 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 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 41 stores (as of December 31, 2021) and commands a strong brand name in the states of Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka (cumulatively contributes ~98 percent of sales). 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.

Healthy improvement in business performance in FY22 and volatile 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 demand conditions. KJPL witnessed a strong improvement in FY2022 with a ~24% growth in revenues to Rs. 6,440.39 Cr as against Rs. 5,173.96 Cr in FY21 (FY20:Rs.4,876.14 Cr; FY19: Rs.4,336.48 Cr). KJPL's operating income witnessed a compounded annual growth rate (CAGR) of ~14% during FY2019- 22. In Q1 FY2023, the revenue stood healthy at ~Rs. 2,885 crore compared to Rs.1,507 crore in the corresponding period of the last fiscal. The operating margin has declined to 6.82% in FY22 as against improved to 9.71 percent in FY21 (FY20: 8.82 percent; FY19: 5.54 percent) and PAT margin has declined to 4.37% in FY22 as against 6.10 percent in FY21 (FY20: 4.11; FY19: 2.50 percent) volatility of raw material process. The average realisation from gold ornaments Rs.5304.12/gram in FY2022 as against Rs.5217.42/gram in FY2021 and Rs.3, 873/gram in FY20 (FY19: Rs.3, 360/gram). Khazana Group's RoCE has declined to 16.39% in FY22 as against 22.63 percent in FY21 and 19.67 percent in FY20 (FY19: 11.75 percent).

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.1,614.83 Cr as on 31 March 2022 as against Rs.1,329.31 Cr as on 31 March, 2021 due to healthy accretion to reserves. The gearing and total outside liabilities to total net worth (TOL/TNW) are comfortable, stood at 0.71 times and 1.22 times as on 31 March, 2022 vis-à-vis 0.66 times and 1.12 times as on 31 March, 2021. The debt protection metrics are healthy; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 10.94 times and 0.28 times, respectively, in FY22 as against at 11.07 times and 0.40 times, respectively, in FY21. Group's Debt/EBIDTA stood at 2.53 times in FY22 as against 1.73 times in FY2021. Acuité believes that the group's financial risk profile will remain healthy over the medium term.

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 150-168 days over the last 3 years ending March 31, 2022. The GCA is owing to high inventory levels in the range of 162-179 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 92 per cent for the last 6 months through July, 2022. Acuité believes that, With a large stockholding requirement, the dependence on working capital loans remains high. The company has high utilisation of its available bank limits, resulting in limited headroom in the bank lines, thus exerting pressure on liquidity. However, the company is in discussion with various lenders to increase the working capital limits, which is likely to support the liquidity, once approved.

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. 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.

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 franchise 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 two independent directors 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 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.240-357 Cr during the last three years through 2021-22, against miniscule maturing debt obligations. The cash accruals are estimated to remain around Rs. 300-350 Cr during 2023-25 against negligible debt obligations. The group's operations are working capital intensive as

marked by Gross Current Assets (GCA) of in the range of 150-168 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 92 percent during the last 6 months period ended in July, 2022. The current ratio of the group stands comfortable at 1.72 times as on March 31, 2022 and it has It has the cash and liquid investment of ~Rs. 285 Cr as on March 31, 2022 also provides additional comfort to liquidity. The group's liquidity is further augmented by advances from jewellery saving schemes, which increased to Rs.605.42 Cr in FY2022 as against 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

Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	6440.39	5173.96
PAT	Rs. Cr.	281.55	315.59
PAT Margin	(%)	4.37	6.10
Total Debt/Tangible Net Worth	Times	0.71	0.66
PBDIT/Interest	Times	10.94	11.07

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- 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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Feb 2022	Standby Line of Credit	Long Term	52.50	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	40.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	40.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	550.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	75.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	150.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Cash Credit	Long Term	150.00	ACUITE A+ Stable (Upgraded from ACUITE A)
	Proposed Bank Facility	Long Term	12.75	ACUITE A+ Stable (Upgraded from ACUITE A)
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	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)
	Cash Credit	Long Term	18.00	ACUITE A- Stable (Reaffirmed)
		Long		

10 Oct 2019	Proposed Bank Facility	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)
07 Sep 2018	Cash Credit	Long Term	23.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long 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+ Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	550.00	ACUITE A+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+ Reaffirmed & Withdrawn
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+ Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+ Reaffirmed & Withdrawn
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.75	ACUITE A+ Reaffirmed & Withdrawn
Bank of Baroda	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	52.50	ACUITE A+ Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Assistant Manager-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.