Press Release

Tribhovandas Bhimji Zaveri Limited

July 23, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** on the Rs. 40.00 crore bank facilities of TRIBHOVANDAS BHIMJI ZAVERI LIMITED (TBZ). The outlook is **'Stable'**.

Tribhovandas Bhimji Zaveri Limited (TBZ), promoted by Mr. Shrikant Zaveri, was set up in 1864. The company is one of India's oldest jewellery houses and was reconstituted as a public limited company from a private limited company on December 03, 2010. TBZ expanded its operations from being a single showroom at Zaveri Bazaar in Mumbai to Pan-India presence through its network of 41 retail showrooms across 14 states. TBZ is listed on BSE and NSE and its promoters hold ~74 per cent stake in the company, with the rest being held by public and other shareholders.

Analytical Approach

Acuité has considered consolidated the business and financial risk profile of TBZ to arrive at the rating. The companies included in consolidation are Tribhovandas Bhimji Zaveri (Bombay) Limited and Konfiaance Jewellery Private Limited. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• **Increasing demand towards branded jewellery**

The consumers' preference towards branded jewellery and hallmarked jewellery has increased over the years. With increasing demand of hallmarked jewellery, players like TBZ are expected to benefit from the same. As per World Gold Council report, India was one of the fastest growing economy in 2016, and given India's growth trajectory, per capita income is expected to continue to rise, this will underpin growth in consumer demand. There are two drivers of demand for gold, which are income and gold prices.

Gold demand rises with income levels. For a 1% increase in income per capita, gold demand rises by 1% and higher prices deter gold purchases. For a 1% increase in gold prices, demand falls by 0.5%. Demand responds more to income than it does to price. This helps explain why gold demand has increased from around 700t in 2000 to around 1,000t in 2010, despite a dramatic increase in the gold price over the period. As per WGC's survey in India, around 86 per cent of participants said that hallmarking is extremely or very important. Players like TBZ and others who are into hallmarked jewellery, are expected to be benefitted from the same.

India being the second largest jewellery market in the world, the consumer preferences towards branded and hallmarked jewellery have increased over the years. The demand for bridal jewellery in India constitutes to around 50-55% of total gold demand followed by 35-40% of daily wear and balance by fashion jewellery. With TBZ's expertise in wedding jewellery for over 100 years, Acuité believes that the increasing demand for branded jewellery with hallmarking, established players like TBZ and others are likely to have a positive impact on its future growth.

• **Established market position with a strong brand presence**

Tribhovandas Bhimji Zaveri Limited (TBZ) is among the leading gold jewellery retail chains in India. The brand 'TBZ' has a history of more than 150 years and it enjoys a strong patronage. Mr. Shrikant Zaveri, a member of the original promoter family, and daughters, Ms. Binaisha Zaveri and Ms. Raashi Zaveri operate a chain of 41 stores under the name 'TBZ'. TBZ specializes in wedding jewellery and studded jewellery. TBZ commenced its operations in 1864 initially with 1 store at Zaveri Bazar in Mumbai. TBZ currently has a network of 41 stores, spread across 14 states namely Maharashtra, Andhra Pradesh and Gujarat to name a few. The company owns 3 out of these 41 stores, 4 are on franchisee basis and balance 34 are on lease. As a result, TBZ has been able to reduce its revenue concentration and increase its geographic network. TBZ has recorded revenues of Rs.1763.83 crore for FY19 (Rs.1751.41 crore previous year).

TBZ has opened 12 new stores since FY2016. TBZ has been following a mix of owned and franchisee model. However, with 12 new stores launched in past three years, going forwards, Acuité believes TBZ will generate higher revenues from its new stores as well as from its established stores. WGC (World Gold Council) expects the domestic jewelry trade to become more organised with consolidated jewellery manufacturers selling a range of conventional and modern products to young urban sophisticated consumers. WGC expects India's gold demand to get a boost from the demographic profile and increasing trend in disposable income. Acuité believes that TBZ will continue to benefit from strong brand equity, wide network of stores across Maharashtra, Gujarat and other states and the promoters' demonstrated ability to adapt to changing consumer tastes and preferences.

Weaknesses

- **Moderate profitability margins and coverage indicators**

The revenue mix of diamond studded gold jewellery is higher for TBZ. The profitability margins and coverage indicators of TBZ is moderated marked by operating margins of 4.28 per cent in FY2019 as against 4.52 per cent in the previous year. The net profit margin stood at 0.88 per cent for FY2019 as against 1.21 percent in the previous year. The tangible net worth of TBZ stood healthy at Rs.480.50 crore as on 31 March, 2019 as against Rs.475.96 crore in the previous year. Gearing (debt-equity) stood moderate at 1.26 times as on 31 March, 2019 as against 1.20 times as on 31 March, 2018. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) of 1.72 times for FY2019 (PY: 1.92 times). Debt-EBITDA stood at 7.62 times for FY2019 as against 6.69 times in the previous year. TBZ has limited headroom to absorb any further debt. Acuité expects some moderation in debt protection metrics on account of plough back. Any significant deviation in any indicator will be a key rating sensitivity factor.

- **High level of inventory**

TBZ has been in retailing of diamond studded gold jewellery since 1864. The company runs 41 stores with a mix of owned, franchisee and leased. Having said that the company is in retailing of jewellery, TBZ has to maintain high level of inventory in its stores. However, the mix of inventory, with slightly higher diamond inventory as against the other retail players, the inventory days stood at 255 for FY2019 as against 223 in the previous year. The increase in inventory days in FY2019 is on account of addition of 4 new stores in second half of FY2019. With company's plans to open 5 new stores in FY2020, Acuité believes, TBZ's ability to generate higher sales from its new and established stores will be critical.

- **Increase in competition from other branded players**

The branded jewellery segment has witnessed intense competition with the aggressive marketing initiatives by pan India players such as Tanishq and expansion plans by regional players such as Joyalukkas and Kalyan Jewellers. The increasing consumer (and regulatory) preferences towards practices like compulsory hallmarking of jewellery is expected to augur well for the organised players. However, the intensely competitive landscape is expected to result in moderation of profitability margins. The increased branding initiative by the various leading large players including Tanishq & Kalyan Jewellers is also expected to exert pressures on the margins of the other relatively smaller regional players like TBZ. The ability of the players like TBZ to stave of these competitive pressures from the larger players will hinge on their ability to offer products in tune with changing consumer preferences at competitive prices.

The increasingly stringent regulatory framework applicable to jewellers and the concomitant increase in compliance costs also have an impact on the margins of the jewellery players. The management of TBZ has hitherto followed an aggressive approach to store expansion by opening 12 new stores in past three years ending 2019. The management's approach to growth by opening new stores has resulted in negative SSSG (Same Store Sales Growth) for past three years. Acuité believes that TBZ's business risk profile will be largely influenced by its store expansion initiatives and the ability to scale up its revenues by adding new stores while maintaining its profitability metrics.

Liquidity Position

TBZ has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.25.00 to 30.00 crore during the last three years through 2018-19, while its maturing debt obligations were Rs.0.05 crore over the same period. The cash accruals of MEPL are estimated to remain around Rs.27.00 – 33.00 crore during 2019-21 while there are no repayment obligations. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 261 for FY2019. This has led to reliance on working capital borrowings, the cash credit limit in the company remains utilized at ~90 percent during the last six month period ended April 2019. MEPL maintains unencumbered cash and bank balances of Rs.6.58 crore as on March 31, 2019. The company being in retail segment has to maintain high level of inventory. Acuité believes that the liquidity of TBZ is likely to remain moderate over the medium term on account of expected accelerated sales from its existing as well as recently opened stores.

Outlook: Stable

Acuité believes that TBZ will continue to benefit from established national position and extensive industry experience of promoters. The 'Outlook' may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining its debt protection metrics and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in working capital or further deterioration in profitability margins or weakening of debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1763.83	1751.41	1690.00
EBITDA	Rs. Cr.	75.49	79.23	73.04
PAT	Rs. Cr.	15.56	21.26	12.93
EBITDA Margin	(%)	4.28	4.52	4.32
PAT Margin	(%)	0.88	1.21	0.77
ROCE	(%)	6.51	7.44	6.39
Total Debt/Tangible Net Worth	Times	1.26	1.20	1.21
PBDIT/Interest	Times	1.72	1.92	1.38
Total Debt/PBDIT	Times	7.62	6.69	7.23
Gross Current Assets (Days)	Days	261	222	225

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A- / Stable

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About Acuité Ratings & Research:

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