

## Press Release

### J C Brothers Jewellers

September 01, 2021



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 58.00 Cr.
<b>Long Term Rating</b>	ACUITE A-/ Outlook: Stable (Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 58.00 Cr bank facilities of J. C. Brothers Jewellers. The outlook is '**Stable**'.

The rating assigned takes cognizance of the established presence of J. C. Brothers Group supported by the extensively experienced promoters. The rating also factors the operational size of the business through 19 operational stores across the Telangana and AP market, healthy financial risk profile and strong liquidity position characterized by its net cash surplus position vis-à-vis debt obligations and prudent utilization of its working capital facilities. The rating also factors the intense competitive pressures in the retail industry and the adverse impact of Covid-19 pandemic on the retail industry and the subsequent Government-mandated shutdown of malls as well as non-essential stores and reduced discretionary spends.

J. C. Brothers Group reported 14.82 percent decline on y-o-y growth in FY2021 with a net profit of Rs. 22.7 Cr. While the sales, on a quarterly basis, have shown improvement with respect to pre-covid levels, Acuité notes that the retail sector is likely to witness continued short-term headwinds due to renewed waves of virus and related restrictions leading to partial closure of stores which may limit the sales growth over the near term.

J.C. Brothers Jewellers, was established as a partnership firm in 2004 by Mr. Marri Janardhan Reddy and his family members and is engaged in the business of retail trade of jewelry and silver items through several showrooms based all around Telangana & AP.

#### Analytical Approach

Acuité has consolidated the business and financial risk profiles of J. C. Brothers Retail Private Limited and its group companies i.e. J. C. Brothers Jewelers and The Chennai Shopping Mall – Jewelers together referred to as the 'J. C. Brothers Group'. The consolidation is in view of the similar line of business, common ownership and significant intercompany financial and operational linkages. Extent of Consolidation: Full.

#### Key Rating Drivers

##### Strengths

- Closely held family lineage in business with an established track record of operations**

J.C. Brothers Group was established in 1998 as a proprietary firm by Mr. Marri Janardhan Reddy, Mr. Marri Venkat Reddy, Ms. Marri Jamuna Rani, Ms. Marri Madhumathi, Mr. B Narasimha Reddy and Mr. Venkata Krishna Palkapati. The group is closely held by the family members and each of them are involved in the day-to-day operations of all the group companies. The promoters have an experience in the retail trading segment for more than two decades. Through the extensive experience of the promoters, the group has ably managed to set up over 19 showrooms with 2 upcoming showrooms spread widely across Telangana and AP region with store names branded under "Jeans Corner", "The Chennai Shopping Mall", "Kanchipuram J S Babu Silks" and "J C Brothers". Further, through their established track record of operations, the group has maintained established ties among its suppliers across India and has been able to create a wide range of products catering to different income category through extensive promotions, advertisement spreading brand awareness which resulted in a year-on-year sales growth of not less than 20 percent through the last three years ending FY2020. Despite the impact of pandemic in FY2021 causing adverse operational disruptions in Q1, the overall revenues in that year stood at Rs.1,081 Cr against Rs.1,166 Cr in FY2020. Further, the group's overall revenues in Q1FY22 have regained similar momentum as pre-covid levels at Rs.347 Cr vis-à-vis Rs.159 Cr in Q1FY21 and Rs.431 Cr in Q1FY20 despite the repetitive

waves of virus and slowdown in retail shopping caused by pandemic. Acuité believes that J.C. Brothers Group is likely to continue to derive benefits from its experienced management and established presence and track record of operations over the near to medium term.

- **Management's philosophy of technologically advanced operations and innovative push marketing strategies**

The use of advance technology in retail industry is widespread and are used to understand customer preferences, inventory management, purchase patterns, etc. Therefore, the management at J.C. Brothers Group have introduced the usage of technology driven tools to take data driven decision related to supply chain management, pricing decisions and further to maximize operational benefits, going forward. The adaption to technology shall enable the group to reduce its stock holding costs, have accurate information of the well performing stock by any supplier and will enable them to have a bargaining power in terms of price, quantity, and quality of goods. Additionally, the group is actively engaged into spreading brand awareness and promotional activities through innovative ways. The group has recently tied up with matrimony-based companies to boost their jewelry sales. The group is also participating in social media marketing campaigns and e-commerce sales. Acuité believes that the ideology of artificial intelligence enabled operations will be one of the key risks mitigators to the business in the medium to long term.

- **Moderate capital structure supported by healthy debt protection metrics**

J.C. Brothers Group's financial risk profile is moderate, marked by a moderate networth profile, healthy gearing level and healthy debt protection metrics. The EBITDA margins of the group improved to 4.68 per cent in FY2021 (Prov.) against 3.85 percent in FY2020. The improvement is attributable to improved realization from jewelry segment and reduction in other operating expenses for the period. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 5.72 times and 2.74 times respectively in FY2021 (Prov.) as against 3.07 times and 1.96 times respectively in the previous year. The net worth of the group stood at Rs.162.83 Cr as on March 31, 2021 (Prov.) as against Rs. 139.23 Cr as on 31 March, 2020. This improvement is on the account of healthy reserve accretions. The timely repayments of loans and moderate leverage levels has led to gearing levels to remain healthy at 0.80 times as on March 31, 2021 (Prov.) as against 0.86 times as on March 31, 2020. TOL/TNW (Total outside liabilities/Total net worth) stood moderate at 2.16 times as on March 31, 2021 (Prov.) against 2.24 times in previous year. Further, the group also invested in enlarging their Kukatpally showroom from existing 25,000 sft to 55,500 sft during FY2021 through the support of available loan funds and internally generated funds. The group also has an upcoming capital expenditure for setting up two showrooms in TS for a project cost of Rs. 88 Cr to be funded in a debt to equity of 2:1.

NCA/TD (Net cash accruals to total debt) stands adequately at 0.28 times in FY2021 (Prov.) as against 0.25 times in FY2020. Acuité expects the financial risk profile to improve over the medium to long term period on account of stable operations of the group supported by a moderate networth profile.

## Weaknesses

- **Impact of pandemic induced disruptions in FY21 performance; regaining momentum in Q1FY22**

The impact of Covid-19 pandemic and the subsequent announcement of lockdowns have been tumultuous for businesses all over the world. And sectors like retail, hospitality, real-estate among others have been facing the brunt of the same till date given the resurfacing waves of the virus and lockdown announcements with restrictions on operations. Further, changes in retail and recreation mobility during covid lockdown across South Indian states as of September, 2020 by Tamil Nadu was at -87%, AP & TS at -59%, Kerala at -71%. The initial impact of the pandemic was difficult with labour shortage, closure of stores and complete lockdown state. J.C. Brothers Group, over the last three years, on a year-on-year basis, registered around 20 percent to 25 percent growth in their total revenues, however, the group faced an overall decline in their revenue growth by 14.8 percent in FY2021 due to the pandemic with stores and showrooms in April, 2020 being completely non-operational. On a consolidated level, the group's revenue stood at Rs.1,081 Cr in FY2021 (Prov.) against 1,166 Cr in FY2020. Given the impact of the pandemic, the group had still not opted for the moratorium benefits during this period. Currently, the operations of the group have bounced back to its pre-covid levels with revenues at Rs. 347 Cr in Q1FY22 vis-à-vis Rs.159 Cr in Q1FY21. Acuité expects that the group's operations could remain impacted in the near to medium term on account of similar lockdown restrictions imposed by the respective state government to curb the perpetuating waves of covid-19 pandemic.

- Working capital intensive nature of operations; partially supported by modest reliance on bank limits**  
 The operations are working capital intensive as understood from its Gross Current Asset (GCA) days at 134 days as on March 31, 2021 (Prov.) against 109 days in the previous year, mainly on account of its inventory cycle at 128 days in FY2021 (Prov.) as compared to 103 days in FY2020. Since the company is operating retail showrooms, it maintains optimal inventory in terms of quantity and designs at the stores. As majority of the transactions are on immediate payment, debtors' cycle is negligible. Moderate inventory holding policy has led to lesser dependence on bank lines resulting in a consolidated utilization at about 59 per cent for the last 15 months through June, 2021. The Group has an unutilized short-term debt portion of 40 percent and additional emergency loan funding of Rs. 5 Cr for the incremental working capital requirements. Acuité believes that, with the nature of business, operations are expected to be moderately working capital intensive over the medium term and remain a key rating sensitivity factor.
- Exposure to intense competition in the retail trading industry coupled with volatility of commodity prices**  
 J.C. Brothers Group currently operates with 19 showrooms based out of Telangana, and 2 other upcoming showrooms at AP & TS. However, these places are also flooded with small and large players in the same line of business. It faces intense competition in terms of product quality and pricing, which leads to continuous pricing pressure, affecting its margins from peers namely R.S. Brothers Group, Kalamandir Group, among others. The entry of branded textile players in Telangana is expected to intensify the competitive landscape for existing players like J.C. Brothers Group. The non-textile segment also faces stiff competition from local players which would limit the company's ability to increase revenues significantly while maintaining margins. The credit profile of the company, over the medium term, will continue to be impacted by the geographical concentration of its stores in and around Telangana coupled with increasing competition from other players. J.C. Brothers Group, also dealing in jewelry items shall additionally remain exposed to regulatory intervention such as compulsory hallmarking, requirement of permanent account number (PAN) etc. change in regulation of gold related savings schemes coupled with changing consumer preferences etc. which could impact the overall operating performance of the sector. Further, changes in metal prices would also impact the demand of gold, silver, etc. The sustainability or improvement in the margins shall remain susceptible to the improvement in realizations due to rise in gold prices reduction in other operating overheads and expenses. Acuité believes that the group's sustainability or improvement of operations shall remain exposed to stiff competition, changes in regulations, changes in the commodity's price over the near to medium term.

#### Rating Sensitivities

- Sustained improvement in the operations with regards to sales and volume and sustainability of profitability margins
- Any unexpected increase in debt levels leading to weighing down of financial risk profile, particularly its liquidity
- Sustenance of the working capital cycle without any significant deviation leading to liquidity constraints
- Deterioration in the financial risk profile caused due to higher than expected debt-funded capex causing any stretch in liquidity

#### Liquidity: Strong

J.C. Brothers Group's liquidity position is assessed at strong marked by healthy generation of net cash accruals against its maturing debt obligations, judicious utilization of working capital facilities while maintaining a healthy current ratio and moderate level of unencumbered cash and bank balance. The group has generated cash accruals in the range of Rs. 29 Cr to Rs. 37 Cr during last three years ending FY2021(Prov.) as against its long-term debt obligations of Rs. 7 Cr to Rs. 11 Cr for the same period. Further, the debt-obligations, in the medium term are expected to increase and remain in the range of Rs. 12 Cr to Rs. 15 Cr owing to addition of new term loans arising from planned capex of setting up showrooms in AP & TS, against which the expected cash accruals are expected in the range of Rs. 41 Cr to Rs. 56 Cr leaving aside adequate cushion in the liquidity buffers for incremental operational usages. Additionally, the group has been judiciously utilizing the working capital bank limits at an average of 59 percent, on a consolidated basis, for a period of 15 months ended June, 2021. However, the group's working capital operations are moderately intensive as evident from Gross Current Asset (GCA) of 134 days as on March 31, 2021(Prov.) as compared to 109 days as on March 31, 2020 influenced by the inventory holding policy. The current ratio stood at 1.32 times as on March 31, 2021(Prov.) against 1.28 times in previous year. The group maintained unencumbered cash and bank balances of Rs. 6.80 Cr as on March 31 2021(Prov.) against Rs. 3.34 Cr in previous year. Acuité believes that the liquidity position of the group is likely to remain strong over the near to medium term on account of healthy liquidity buffers for incremental operational purposes given the prudent utilization of funds and modest repayable obligations though may remain partly constrained due to the moderately intensive nature of its

working capital operations.

### Outlook: Stable

Acuité believes that J. C. Brothers Group will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry. The outlook may be revised to 'Positive', in case of substantial and sustained improvement in operations and realizations from jewelry and textile products, improvement in geographical coverage and planned implementation of technologically adaptive methods to reduce operating expenses leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case J. C. Brothers Group registers lower-than-expected revenues and profitability or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	1,081.12	1,166.63
PAT	Rs. Cr.	22.74	15.81
PAT Margin	(%)	2.10	1.35
Total Debt/Tangible Net Worth	Times	0.80	0.86
PBDIT/Interest	Times	5.72	3.70

### Status of non-cooperation with previous CRA

Not Applicable

### Any other information

Not Applicable

### Any Material Covenants

- 100% cash flows to be routed with bank
- Unsecured loans from promoters or directors not to be withdrawn without prior permission from bank
- TOL/Adj. TNW < 2x
- Adj. TNW > 800 Mn
- Interest Coverage > 2.5x
- DSCR > 1.75x
- Debt/EBITDA < 4x

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Lender Name	Name of Facility (ies)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
HDFC Bank Ltd	Cash Credit	Not Applicable	Not Applicable	Not Applicable	53.00	ACUITE A-/Stable (Assigned)
Not Applicable	Proposed GECL	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)

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### About Acuité Ratings & Research:

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