Press Release

J C Brothers Jewellers

November 25, 2022

Rating Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	58.00	ACUITE A | Upgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	58.00	-	-

Rating Rationale

Acuité has upgraded & withdrawn its long - term rating to **'ACUITE A' (read as ACUITE A) from 'ACUITE A-' (read as ACUITE A 'Minus')** on the Rs. 58.00 Cr bank facilities of J. C. Brothers Jewellers.

The withdrawal is on account of client's request and receipt of NOC from the lead banker. The withdrawal is in accordance with Acuité's policy on withdrawal of rating.

Rationale for the rating

The rating upgrade reflects consistent improvement in its business risk profile marked by sustained growth in scale and profitability . Marri group reported revenue of Rs.1665.10 Cr for FY2022 ; a growth of about 54.08 percent over FY2021 revenues of Rs.1080.70 Cr. Simultaneously, Marri group's operating margin improved to ~5.85 percent in FY2022 from 4.91 percent in FY2021.The financial risk profile improved in terms of improved interest coverage ratio (ICR) and debt service coverage ratio (DSCR) along with better liquidity position in terms of higher net cash accruals vis-a-vis its debt obligations and efficient working capital management.

The rating continues to be supported by the established presence of Marri Group supported by the extensively experienced promoters, management's philosophy of technologically advanced operations and innovative push marketing strategies. The rating also factors the operational size of the business through 23 operational stores across the Telangana and Andhra pradesh market, moderate 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 is, albeit, constrained by its exposure to intense competition in the retail trading industry coupled with volatility of commodity prices.

About Company

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 across Telangana and Andhra pradesh.

About the Group

Marri Retail Private Limited (Formerly known as J.C. Brothers Retail private Limited) (MRPL), was established as a partnership firm in 2004 by Mr. Marri Janardhan Reddy and his family members and later in 2008 converted to a 'private limited' company. It is engaged in the business of retail trade of textiles, ready-made garments, jewelry and silver items through several showrooms based all around the Telangana state. It was initially started as a proprietary firm with a 1000 sft retailing ready-made garments in 1998 at Ameerpet, Hyderabad. Since then, the group has opened several outlets in prime locations of Hyderabad retailing into textile, ready-made garments and jewelry items. Further, the group categorizes its showrooms and brands as per the textile and jewelry division.

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 Marri Retail Private Limited (Formerly known as J.C. Brothers Retail private Limited) and its group company i.e. J. C. Brothers Jewelers together referred to as the 'Marri Group'. The Chennai Shopping Mall – Jewelers (TCSJ) has not been separately taken into the consolidation approach as it has shifted to J.C. Brothers Jewelers (JCBJ) in FY2022.The consolidation is in view of the similar line of business, common ownership and significant intercompany financial and operational linkages.

Key Rating Drivers

Strengths

- **Closely held experienced family lineage in business with an established t rack record of operations**

  Marri 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 23 showrooms with 1 upcoming showroom 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 FY2021. To simplify the shareholder structure, Mr. Marri Venkat Reddy and family now has complete control of MRPL. Under family arrangement, complete control was assumed by Marri Venkat Reddy who was the key managerial personnel (KMP) for last 10 years. Son of Marri Janardhan Reddy(Founder of Marri Group) is inducted into the group as part of succession planning. Moreover, the jwewllery business in JC brothers has been transferred to Marri Retail Pvt Ltd to streamline the operations and bring efficiencies under one company. New CEO and experienced hires across departments have been induced resulting in improving business risk profile. Acuité believes that Marri 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 st rategies**

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 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 Financial risk profile**

The group's moderate financial risk profile is marked by moderate net worth, gearing and healthy debt protection metrics. The net worth of the group stood at Rs.202.57 Cr worth is due to accretion of reserves. The gearing of the group deteriorated marginally as on March 31, 2022 on account of increase in debt levels. It stood at 1.04 times as on March 31, 2022 against 0.81 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 8.49 times and 3.38 times as on March 31, 2022, respectively as against 5.48 times and 2.61 times as on March 31, 2021 respectively. TOL/TNW stood at 2.41 times and 2.55 times as on March 31, 2022 and 2021, respectively. The improvement in debt protection metrics is on account of increase in net cash accruals. The debt to EBITDA of the group stood at 2.16 times as on March 31, 2022 as against 2.44 times as on March 31, 2021. 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.

- **Improved and efficient working capital management**

The working capital management of the company remained moderate with gross current assets(GCA) days at 103 days as on March 31, 2022 as against 153 days as on March 31, 2021. The improvement in GCA days is on account of improvement in inventory days. Inventory days stood at 90 days as on March 31, 2022 as against 145 days as on March 31, 2021. Subsequently, the payable period stood at 39 days as on March 31, 2022 as against 61 days as on March 31, 2021 respectively. The debtors day stood at 1 days as on March 31, 2022 as against 1 days as on March 31, 2021. Further, the average bank limit utilization in the last nine months ended September, 2022 remained at ~65 percent for fund based. 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.

Weaknesses

- **Exposure to intense competition in the retail t rading industry coupled with volatility of commodity prices**

Marri Group currently operates with 24 showrooms based out of Telangana, and 1 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 Marri 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. Marri 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

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

Liquidity Position: strong

The marri group's 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.67.03 Cr in FY2022 as against its maturing long term debt obligations in the range of Rs.11.71 Cr for the same period. The current ratio stood at 1.27 times as on March 31, 2022 . Unencumbered cash and bank balances stood at Rs. 43.21 Cr as on March 31, 2022. The fund based bank limits utilization of group is 65 percent for fund based for the past nine months ending September, 2022. 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: Not applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1665.10	1080.70
PAT	Rs. Cr.	48.81	20.96
PAT Margin	(%)	2.93	1.94
Total Debt/Tangible Net Worth	Times	1.04	0.81
PBDIT/Interest	Times	8.49	5.48

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

None

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
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in.**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Sep 2021	Proposed Working Capital Term Loan	Long Term	5.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	53.00	ACUITE A- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	53.00	ACUITE A | Upgraded & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A | Upgraded & Withdrawn

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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.

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