

Khazana Jewellery Private Limited

December 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	24.58	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	1,175.42	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Assigned
Total Bank Facilities	1,200.00 (Rs. One Thousand Two Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Khazana Jewellery Private Limited (KJPL) derive support from strong brand position, established presence in south India and vast experience of the promoter in the gold jewellery retail industry. The ratings are further strengthened by stable revenue growth, healthy profit margins and comfortable leverage. However, the rating strengths are constrained by working capital intensive nature of operations, revenue concentration with large part of the income from a few showrooms located in the coastal region of Andhra Pradesh. The ratings also take note of the presence in highly competitive and fragmented industry, volatility in margins due to volatility in gold prices and exposure to regulatory risks.

Rating Sensitivities

Positive Factors:

- Ability to improve sale and inventory turnover in the showrooms in Tamil Nadu (TN) which would also lead to a more diversified revenue profile and working capital management
- Product diversification with increasing trend on value-added jewellery leading to better margins
- Improvement in leverage debts below unity

Negative Factors:

- Any elongation in working capital cycle leading to weakening of liquidity profile and low cash surplus
- Slower than envisaged sales ramp up leading to inventory build up and higher working capital borrowing

Detailed description of the key rating drivers

Key Rating Strengths:

Long track record and established brand name: The promoter, Mr Kishore Kumar Jain, has been engaged in the business of gold jewellery since 1975 and the jewellery business under the Khazana brand was started in 1992. There is a strong brand image for 'Khazana', known for its unique designs of majorly handmade jewellery created by a wide network of goldsmiths, as opposed to machine-made jewellery purchased from wholesalers.

Strong presence in south India albeit concentration in Andhra Pradesh: KJPL has established presence in south India, mainly Andhra Pradesh and TN. KJPL commands a leading position in the gold jewellery market in AP and Telangana. The concentration in AP and Telangana has been steadily increasing over the past few years, contributing nearly 77% of KJPL's sales in FY21 as against 58% in FY16 (refers to the period April 1 to March 31). The company has 41 retail showrooms across Andhra Pradesh (20 showrooms), Telangana (6), Tamil Nadu (9), Karnataka (4), Pondicherry (1), Orissa (1). Over the past two years, the company also has closed down around 10 stores, which were not generating revenues to shift focus to stores with better profitability.

Strong network of goldsmiths: The requirement of gold bars is estimated in the corporate office and the bullion bars purchased are issued to the goldsmiths across the country. KJPL has a good network of across the country who operate on an exclusive basis with KJPL. Since major part of the sales is handmade jewellery, the strong relationships with the goldsmiths aids the company in bringing innovative designs and maintain margins.

Improvement in profitability margins: The company has always been able to maintain margins at 4%-6% even with the fluctuations in gold prices. And over the past three years, the company has been able to significantly improve its margins from 4.66% in FY18 to 10.13% in FY21. While this improvement was primarily driven by increasing sales aided by increasing gold prices which aided in better absorption of fixed expenses, in H1FY22 the margins stood at 6.28% on a revenue of Rs.2,668 crore.

Key Rating Weaknesses:

Working capital intensive operations: The operations of KJPL are working capital intensive owing to high inventory levels with inventory period at 181 days in FY21. Engaged in the retail business, gold inventory accounts for around 90% of the

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

company's total current assets. As the company is operating retail showrooms, it maintains optimal inventory across showrooms in terms of quantity and designs at the stores in order to attract more customers.

Moderately leveraged capital structure and exposure to group companies: Debt equity ratio remains low at 0.07x due to low term-debt in the company. However, with working capital intensive operations and high inventory levels, the working capital borrowings remain high, thereby leading to relatively higher overall gearing. However, overall gearing (debt includes advances from customers for gold schemes) has improved over the years from 2.03x in FY17 to 1.08x in FY21. KJPL had equity investment amounting to Rs.65.09 crore as on March 31, 2021 in its Dubai-based wholly-owned subsidiary, Khazana Gold & Diamond DMCC (KGD). There is no debt in the books of KGD. Adjusting for the investments in subsidiaries, the overall gearing stood at 1.13x.

Presence in industry which is highly competitive and regulated with volatile gold prices: The gems and jewellery sector is highly fragmented. The retail segment has high dominance of unorganized players and even more so in case of manufacturers. This creates high competition for the organized players. There is a pressure on pricing flexibility of the organized players which impacts the margins of the companies. Gold, being an important commodity and a mode of investment, the prices have remained fairly volatile which again impacts the margins of the companies in the industry.

The jewellery sector has seen high regulatory interventions in the past. Recent developments include mandatory PAN number collection for purchase of gold jewellery beyond Rs.2 lakh, mandatory hallmarking of gold jewellery, etc. Government also modifies import duty on gold. In investment side, the government is promoting gold bonds and schemes as an alternative to physical gold. All these interventions have affected demand and supply in the past and also impacted the funds flow to this sector.

Liquidity : Strong

The liquidity of the company is marked by strong GCA of Rs.313 crore in FY21 as against negligible debt repayments. The company also has sufficient free cash and bank balances of Rs.80 crore and has Rs.83 crore which is provided as security against gold metal loans and working capital loans. The company's working capital utilization remained high at around 91% due to the working capital intensive nature of the business.

Industry and Prospects:

Indian consumers' jewellery consumption is influenced by multiple factors such as region, income, cultural notions and generally vastly differs across states. Southern states make up majority of the Indian gold jewellery market. Wedding jewellery demand in particular is influenced by local traditions and designs. Apart from this, there is a seasonality that also affects the demand for gold. Due to such regional differences, pan-India presence of gold retailers may be difficult as it becomes extremely important to understand the nuances of preferences in different regions. Khazana, through its presence for many years, has a hold on the preferences of AP and Telangana markets and to an extent TN markets. The company's ability to increase its presence in TN markets and increase the inventory turnover while maintaining stable margins is key to its prospects.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Retail](#)

About the Company

Khazana Jewellery Private Limited (KJPL) was incorporated on March 30, 1992, as Khazana Jewellery (Madras) Private Limited with a retail outlet at NSC Bose Road, Chennai. The company was promoted by Mr Kishore Kumar Jain, who was engaged in the business of gold jewellery as wholesaler since 1975. KJPL is primarily engaged in the retailing of gold jewellery, diamonds, silverware and platinum jewellery through its 41 retail showrooms across Andhra Pradesh (20 showrooms), Telangana (6), Tamil Nadu (9), Karnataka (4), Pondicherry (1), Orissa (1). The retailing of gold jewellery is the major revenue contributor for KJPL with about 94% share of the sales in FY21, while the silver ware and diamonds accounted for around 2% and 4%, respectively.

'Khazana' brand is well known in the south India, in particular Andhra Pradesh jewellery market, for its unique handmade designs. The company has a network of artisans across India.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	4,437.74	4,754.99	2,668.15
PBILDT	426.83	481.04	167.67
PAT	217.22	287.36	100.96
Overall gearing (times)	1.39	1.08	NA
Interest coverage (times)	8.59	10.08	8.69

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	August 2022	24.58	CARE A; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	892.92	CARE A; Stable / CARE A1
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	242.50	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Working Capital Limits		-	-	-	40.00	CARE A; Stable / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	-	-	1)Withdrawn (10-Dec-18)
2	Term Loan-Long Term	LT**	24.58	CARE A; Stable				
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	892.92	CARE A; Stable / CARE A1				
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	242.50	CARE A; Stable / CARE A1				
5	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	40.00	CARE A; Stable / CARE A1				

* Long Term / Short Term; **Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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