

## Josco Fashion Jewellers

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	37.69 (Reduced from 40.96)	CARE BBB+; Stable	Reaffirmed

Details of facilities in Annexure-1

### Rationale and key rating drivers

The rating assigned to bank facilities of Josco Fashion Jewellers (JFJ) continue to factor in vast experience of promoters in the jewellery retailing business and strong brand presence of 'Josco' with its long-standing track record of operations and consistent growth in operating income over the years.

However, the rating is constrained by the company's moderate profit margins exposed to gold price volatility, moderately leveraged capital structure with sizeable capital withdrawals, geographic concentration risk, exposure to the group companies, and highly competitive gold jewellery retailing industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Consistently growing operating income aided by addition of new showrooms and reducing geographical concentration.
- Improving overall gearing below 0.50x.

#### Negative factors

- Declining operating margins on a consistent basis below 3%.
- Deteriorating overall gearing levels beyond 1.2x.
- Further large exposure to group companies or withdrawal of capital, impacting capital structure.

### Analytical approach – Combined

All three entities of the Josco Group – Josco Fashion Jewellers (JFJ), The Josco Fashion Jewellers (TJFJ) and Josco Bullion Traders Private Limited (JBTP) are engaged in similar line of business with a common brand name, having common promoters with cross holding between entities and have operational and financial fungibility. Hence, CARE Ratings Limited (CARE Ratings) has taken a combined view of JFJ, TJFJ and JBTP of the group for analysis.

### Outlook: Stable

Stable outlook reflects that the company is expected to sustain the growth in income backed by the recently added retail outlets and continue to leverage on its strong brand presence and experienced promoters.

### Detailed description of key rating drivers

#### Key strengths

##### Experience of promoters in jewellery retailing business

P A Jose, the founder of the group, has been managing the entire retail jewellery business of the group from its inception in 1977, involving several facets of the business, such as procurement, strategic planning, among others. He is ably supported by his wife, Alphonsa, and son, Tony, who are involved in key decision-making processes for the entire Josco group. They are supported by senior management headed by the group's General Manager, Sabu Thomas (a relative of P A Jose), who has been associated with the group for nearly two decades.

##### Long-standing track record of operations

The Josco group has been engaged in the jewellery retailing business since 1977, having started with a single showroom at Kottayam (through TJFJ), and is one of the early entrants in the organised jewellery retailing in Kerala. The group currently enjoys an established market position in the state, operating 21 showrooms in Kerala, one showroom in Tamil Nadu, and two in Karnataka.

##### Growth in scale of operations with strong brand presence of 'Josco'

The group has been able to develop a strong brand recall for 'Josco jewellers' primarily in Kerala (especially in the southern part of the state), by continuous brand building activities and showroom-specific activities and advertisement. All stores operated by the group carry this brand name. The group's operating income had grown significantly from ₹3,035 crore in FY21 to ₹4,191.66

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

crore in FY24 at a compounded annual growth rate (CAGR) of 8.5% aided by the contribution from newly added showrooms. Gross cash accruals (GCA) also increased from ₹44.63 crore in FY21 to ₹118.33 crore in FY24, resulting in improved debt protection metrics.

### **Key weaknesses**

#### **Leveraged capital structure**

The overall gearing of the group continued to remain relatively leveraged albeit improved over s. The overall gearing stood at 0.89x as on March 31, 2024 as against 0.83x as on March 31, 2023. The group has extended loans and advances of ₹108.05 crore (PY: ₹99.28 crore) to related parties as on March 31, 2024, and withdrawn capital to the extent of ₹20.24 crore (PY: ₹45.30 crore) in FY24. CARE Ratings notes that additional exposure to group companies or significant withdrawal of capital would be a key monitorable from a credit perspective.

#### **Moderate profit margins exposed to volatility in gold prices**

The group's profit before interest, lease rentals, depreciation and taxation (PBILDT) margin has been moderate and volatile between the range of 3-5%, primarily due to limited value addition and remains exposed to intense competition and volatility associated with gold prices. The group follows a policy of replenishing the day's sale within a day or two with equivalent amount of stock, which helps in mitigating volatility of gold price to some extent. The group normally procures a large quantity of old gold from customers who exchange them, which mitigates volatility to some extent.

#### **Geographic concentration risk**

The group's revenue is highly concentrated in the Kerala market, as 21 out of 24 showrooms are in and around the state, contributing to 95.68% of the total revenue for the last two years ended FY24. This exposes its revenue and earnings to fluctuations in the demand scenario and restrictions within the state. Although the group has added a showroom at Bangalore and the existing one at Jayanagar, CARE Ratings expects the group's revenue to likely remain concentrated in Kerala in the medium term.

#### **Industry outlook**

The gems and jewellery industry contributes almost 7% to the country's GDP. The sector employs over 4.64 million employees and is home to over 300,000 gems and jewellery players. The speed and magnitude of gold price rises have been unprecedented in FY24. While it took nearly a year for domestic prices to rise from ₹50,000/10g to ₹60,000/10g, the rise from ₹60,000/10g to ₹70,000/10g took little more than five months. Gold's price growth is expected to continue in FY25 backed by the festive season ahead in Q3. The demand and supply of gold generally follow market-driven price dynamics. Being an important commodity and a mode of investment, gold prices have remained volatile, with the average price band and price expectations of consumers and investors driving the overall demand for the yellow metal.

#### **Liquidity - Adequate**

The group's adequate liquidity is characterised by sufficient cushion in accruals of ₹118.33 crore against repayment obligations of ₹18.71 crore in FY25. The operating cycle of the group stood at 81 days in FY24 (PY: 64 days), with inventory period of 65-80 days in the past three years. The retail jewellery business is characterised by a high inventory holding (typically of 2-3 months of sales in case of the Josco group) due to requirement to keep sufficient stock in the form of finished goods at showrooms for display and sales, leading to high working capital intensity. The stock generally consists of 60% of fast-moving products, such as studs, rings and chains and 40% of slow-moving, high margin providing products. The retailing business is cash and carry, with zero credit period and companies in the Josco group enjoy a creditors' period of 2-10 days. The average working capital utilisation of JFJ stood at 85.66% for 12-months ended May 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

#### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Retail](#)

[Services Company](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

JFJ, TJFJ, and JBTP is part of the Josco group and has been operating jewellery retail stores for more than 40 years in south India. The group is managed by P A Jose, who had started the Josco group in 1977, and his wife P P Alphonsa. JFJ operates one showroom in Kerala, while TJFJ operates one showroom and JBTP operates 21 jewellery showrooms in Kerala, two in Karnataka and one in Tamil Nadu as of May 2024.

Brief Financials (₹ crore) (Standalone)	31-03-2022 (A)	31-03-2023 (A)	31-03-2024 (UA)
Total operating income	557.74	686.11	720.13
PBILDT	30.06	37.25	40.41
PAT	26.93	33.53	36.73
Overall gearing (times)	0.20	0.26	0.21
Interest coverage (times)	12.10	9.98	10.54

A-Audited; UA- Unaudited; Note: these are latest available financial results.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instruments/facilities:** Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2026	7.69	CARE BBB+; Stable
Fund-based-Long Term		-	-	-	30.00	CARE BBB+; Stable

### Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long Term	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-23)	1)CARE BBB; Positive (06-Dec-22)	1)CARE BBB; Stable (27-Dec-21)
2	Fund-based - LT-Term Loan	LT	7.69	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-23)	1)CARE BBB; Positive (06-Dec-22)	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Long Term	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. This classification is available at [www.careedge.in](http://www.careedge.in). Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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