

Chandana Brothers Textiles and Jewellers Private Limited

December 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	300.00	CARE BBB+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the rating on credit watch with developing implications following an update from the management regarding the proposed demerger of CBTJ's two divisions into a separate family group company. Per the filing, the promoter and family have internally proposed an arrangement for demerging two business divisions Ameerpet and Nellore, covering four branches operating currently under CBTJ, into two existing family-owned entity M/s Chandana Brothers Silks and Jewellers Private Limited and M/s Chandana Brothers Retail India Private Limited. CBTJ currently operates across three divisions: Secunderabad, Ameerpet, and Nellore. The demerger is subject to required statutory and regulatory approvals, from authorities including the National Company Law Tribunal. The process is still underway.

CARE Ratings will keep monitoring developments and assess impact of the demerger, with a view to taking suitable rating action once the process is complete.

Reaffirmation in ratings assigned to bank facilities of CBTJ continue to derive strength from its experienced promoters, long business track record in retailing of jewellery and textile products, established brand name 'Chandana Brothers' and 'CMR' with a wide presence in and around Hyderabad city. Rating also considers the growth in company's total operating income (TOI) and improved profitability margins in FY24 (FY refers to April 01 to March 31), with satisfactory financial risk profile and stable industry outlook.

However, rating strengths are partially offset by working capital intensive operations with moderate profitability margins, given the retailing nature of business, presence in a highly competitive and fragmented industry, geographical concentration risk with majority revenue from Hyderabad city, and the company's earnings being vulnerability to gold price volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in TOI above ₹2000 crore, while improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 5% or above, on a sustained basis.
- Improvement in overall gearing to below unity on a sustained basis.

Negative factors

- Significant deterioration in the capital structure, overall gearing going beyond 1.30x, in future.
- Sharp decline in TOI or PBILDT margin falling below 2.5%.

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Established and long operational track record with a strong brand image

CBTJ is a family run business with a long track record of four decades in retailing jewellery and textile under the brand 'Chandana Brothers' and 'CMR'. Over the years, the family group has been able to build an established brand image in twin states of Andhra

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

Pradesh and Telangana. The founder Chandana Mohan Rao handed over the business to their sons-in-law, however, the business shares common brand of 'Chandana Brothers', and 'CMR' but operates independently. CMR Textiles & Jewellers Private Limited (CMRTJ) mainly operates in Andhra Pradesh and CBTJ largely operates in Telangana. Since one of the key differentiating factors in the jewellery retailing business is the brand image, CBTJ benefits from its established brand image, leading to a loyal customer base and higher share of footfalls in showrooms. Marketing and advertising expenses are borne on a standalone basis.

Improvement in TOI and profitability in FY24 (Provisional)

The company's TOI has registered a growth of 7% to ₹1776 in FY24 compared to ₹1661 crore in FY23. Revenue growth can be attributed to the jewellery segment, driven by rising gold prices, while maintaining stable sales volume levels. Revenue contribution from the jewellery segment increased, while the textile segment remained steady in FY24 compared to FY23. In 7MFY25, the company has generated a revenue of ₹943.90 crore.

The company's profitability marked by PBILDT margin improved by 93 bps to 4.08% in FY24 compared to 3.15% in FY23. Profit after taxes (PAT) margin has also improved by 72 bps to 2.05% in FY24 compared to 1.33% in FY23. The company charge higher making charges for complex jewellery designs, which helps improve margins.

Satisfactory leverage and debt coverage indicators

The company's capital structure consists of term loans and working capital bank borrowings. Overall gearing remains satisfactory at 1.15x as on March 31, 2024. Debt levels have increased as of March 2024 considering additional term loan availed for opening new stores. Despite increase in debt levels the overall gearing continues to remain satisfactory due to accretion of profits to reserve. The company's net worth stood at ₹220.82 crore as on March 31, 2024. Debt coverage indicator such as PBILDT/ interest coverage improved to 3.09x in FY24 compared to 2.94x in FY23 considering significant improvement in PBILDT levels. Total debt to gross cash accruals (TD/GCA) also improved to 5.63x as on March 31, 2024, against 6.35x as on March 31, 2023.

Long-term leased with strategic showrooms/stores

CBTJ commenced its jewellery retailing business from March 2004 onwards by expanding retail chain of family run Chandana Brothers (Andhra Pradesh) in and around Hyderabad. To increase its scale of operations and diversify its geography, the company has been consistently opening new stores across Telangana and currently has 23 showrooms in and around Hyderabad. Of the 23 stores, two are owned and exclusives showrooms in Secunderabad (HO) and Patny center in Hyderabad. These showrooms are on a long-term leased arrangement between 18-20 years. All showrooms provide ample parking space either in the same building or in proximity. The cumulative total area of the stores is ~3.47, lakh square feet.

Key weaknesses

Geographical concentration risk

CBTJ has been a regional player since inception with well-established brand name among local customers. All operating stores are based in and around Hyderabad. Concentration of entire operations in the region exposes company to adverse developments related to competition, political unrest, and economic, demographic and other changes in the region, which may adversely affect its business prospects, financial conditions and results of operations.

High reliance on working capital limits

The retail jewellery business is generally characterised by a high inventory holding due to the requirement to keep sufficient stock in the form of finished goods inventory at the showrooms for display and sales. This also leads to high working capital intensity. CBTJ generally keeps over three months of stock at point of time, ensuring relatively moderate inventory holding. The stock is replenished daily by equivalent number of ornaments that were sold on the previous day. The company keeps track of the stock and generate detailed sales reports daily. On the procurement side, the company generally purchases gold jewellery based on requirements from the wholesaler. It also procures old gold from its customers on upfront cash-basis, which is converted as ornaments by inhouse artisans and outsourced artisans, who do job works for CBTJ. Over the years, the promoter has established relationship with a network of over 50-100 artisans. To manufacture specific designs based on market trends and to differentiate its product portfolio, CBTJ also provides inputs to artisans to manufacture new designs by its inhouse team. Working capital limits for 12-months ended September 2024 stands high at ~96%, however, promoters also support through unsecured loans on need basis.

Highly competitive and fragmented nature of industry

The Gold & Jewellery industry in India is characterised by presence of a large number of organised and unorganised players with the share of organised jewellery retail sector (comprising national and regional retail chains) at a mere between 20-30%. Increasing penetration of organised players, who offer greater variety in terms of product-mix and jewellery design; and customer's changing lifestyle, increasing urbanisation, growing trend towards online buying and strategic marketing by jewellers is envisaged to increase the share of organised jewellery retail segment going ahead. Despite 'CBTJ' being an established brand in the Andhra Pradesh and Telangana market, it is exposed to intense competition from other regional players, which could lead to pressure on its margins.

Profit margins susceptible to gold price volatility, however, risk mitigated to certain extent by inventory replenishment/reorder method

Being a retailer, CBTJ buys gold jewellery in bulk from wholesalers, jewellery manufactures, and traders, where prices vary with prices of underlying precious metal. Gold jewellery and gold bars, which are major constituents of CBTJ's product portfolio, derives its prices from gold prices, which are volatile due its precious commodity nature. Gold prices are driven by global demand supply scenario and other factors such as economic growth, forex rate, interest rates, and government & RBI regulations and policies among others. Its profitability is highly susceptible to gold prices considering large inventory holding (inventory days of 3-4 months in FY24) requirement considering large product portfolio. CBTJ follows policy of replenishing the day's sale by next day with equivalent amount of stock, which helps to some extent in mitigating risk associated with gold price volatility. It also uses recycled gold, which constitutes less than 20% of total purchases. Diamonds are also procured directly from registered dealers and entire diamond jewellery range consists of certified diamonds. CBTJ follows inventory replenishment method (purchasing same quantity of gold, which is sold in the day) for managing volatility associated with gold price.

Liquidity: Adequate

The company is into cash and carry business, which provides regular cash flows. CBTJ's liquidity remains adequate marked by healthy GCA of ₹42.19 crore against a nominal repayment of ₹5.47 crore in FY25. Liquidity is further supported by an above unity current ratio of 1.21x as on March 31, 2024. The company had cash and bank balances of ₹2.78 crore as on March 31, 2024. The company's working capital utilisation for 12-months ended September 2024 remained high at ~95%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	No major impact due to services nature of operations.
Social	The company adheres to all social security norms directed by the government for its employees.
Governance	No such risk has been identified

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Retail](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

CBTJ was incorporated in 2004 and is promoted by Allaka Satyanarayana (son-in-law of Chandana Mohan Rao, founder of Chandana Brothers group) and Allaka Suneetha Kumari. The company is into retailing jewellery, textiles apparels and readymade garments for men, women, children and bridal wear. It mainly caters to the ethnic segment, which goes with jewellery, and sales are high in festive season than in rest of year. The company operates in Telangana, where it has its majority retail stores in Hyderabad. It operates stores, showrooms and malls under the brand name of 'Chandana Brothers', 'CMR legacy' and 'CMR family mall' with a total of 23 stores. CBTJ retails jewellery and textile, whereas CMR legacy is exclusively for jewellery business and CMR family for textile business. The company earns majority revenue from jewellery segment followed by textile.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	H1FY25 (UA)
Total operating income	1,660.99	1,776.10	943.90
PBILDT	52.33	72.43	NA
PAT	22.11	36.56	NA
Overall gearing (times)	1.01	1.15	NA
Interest coverage (times)	2.70	2.67	NA

A: Audited UA: Unaudited NA: Not Available; 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	279.50	CARE BBB+ (RWD)
Fund-based - LT-Term Loan		-	-	February 2029	20.50	CARE BBB+ (RWD)

Annexure-2: Rating history for 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 - LT-Cash Credit	LT	279.50	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (15-Sep-23)	-	-
2	Fund-based - LT-Term Loan	LT	20.50	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (15-Sep-23)	-	-

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: 080- 46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 912267543404 E-mail: saikat.roy@careedge.in	Mohammed Javed Ansari Assistant Director CARE Ratings Limited Phone: 914040020131 E-mail: Mohammed.A@careedge.in
	Ankit Jha Analyst CARE Ratings Limited E-mail: Ankit.Jha@careedge.in

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