

## Khazana Jewellery Private Limited

March 05, 2025

| Facilities/Instruments                 | Amount (₹ crore)                     | Rating <sup>1</sup>        | Rating Action |
|--|--------------------------------------|----------------------------|---------------|
| Long-term / Short-term bank facilities | 1,500.00<br>(Enhanced from 1,157.50) | CARE A+; Stable / CARE A1+ | Reaffirmed    |
| Long-term / Short-term bank facilities | -                                    | -                          | Withdrawn     |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to bank facilities of Khazana Jewellery Private Limited (KJPL) continues to derive comfort from the company's strong brand position, established presence in south India and vast experience of the promoter in the gold jewellery retail industry. The rating is further strengthened by consistent growth in revenue and comfortable leverage levels. However, the rating is constrained by working capital intensive operations, presence in highly competitive and fragmented industry, margins susceptibility to volatility in gold prices and exposure to regulatory risks.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to one of KJPL's long-term/short-term bank facilities with immediate effect. This action has been taken at the request of KJPL and 'No Dues Certificate' received from lenders that have extended respective facilities rated by CARE Ratings.

### Rating sensitivities:

#### Positive factors

- Consistent growth in scale of operations beyond ₹12,000 crore with improvement in geographical spread.
- Improvement in product diversification with increasing trend on value added jewellery, leading to better margins.
- Improvement in total debt to gross cash accruals (TD/GCA) below 3.5x.

#### Negative factors

- Elongation in working capital cycle, leading to deterioration of liquidity profile and low cash surplus.
- Slower-than-envisaged sales ramp up, leading to inventory build-up and higher working capital borrowing.

### Analytical Approach: Standalone

#### Outlook: Stable

CARE Ratings expects that the company would continue to maintain healthy debt coverage indicators in the medium term, aided by growth in revenue and accruals.

### Detailed description of key rating drivers

#### Key Strengths

##### Long track record of promoter and established brand name in South India

The promoter, Kishore Kumar Jain, has been involved in the business of gold jewellery for about five decades and the jewellery business under the 'Khazana' brand for over three decades. There is a strong brand image for 'Khazana', known for its unique designs of majorly handmade jewellery designed by a wide network of goldsmiths, as opposed to machine-made jewellery purchased from wholesalers. KJPL provides the gold and other raw materials to a set of exclusive artisans who work solely for KJPL on a job-work basis. The company's brand image and reach has enabled them to expand their footprint throughout south India especially in Andhra Pradesh (AP) and Telangana in the last few years, where KJPL has a well-established presence.

##### Strong network of goldsmiths

Procurement of gold is centralised, while jewellery is majorly hand-made by goldsmiths present across the country. The company has a separate product team that comes up with designs based on market trends. Requirement of gold bars is estimated in the corporate office and bullion bars purchased are issued to goldsmiths across the country. With a wide network of gold smiths across the country, the company is able to quickly adapt to changing customer preferences. Since major part of sales is handmade jewellery, strong relationship with goldsmiths aids the company in bringing value-added designs and maintain margins.

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

**Consistent growth in TOI; albeit moderate margin**

Over the years, the company has established a strong hold in Telangana and Andhra Pradesh, leading to significant y-o-y improvement in these states, while moderate growth witnessed in other states. Total operating income (TOI) has grown at a compound annual growth rate (CAGR) of 24% in the last three years aided by increase in volume and rise in gold price. In FY24, the company sustained its volume, and its TOI grew by 14% primarily due to the rise in gold prices. KJPL reported a 14% a y-o-y growth in H1FY25 aided by higher realisation, despite a marginal drop in sales volume (~-4%). While the company has consistently scaled up, its margins continue to be range bound at ~6-8%. The comparatively lower margins can be attributed to the moderate contribution from value added and studded jewellery, with majority sales coming from plain gold ornaments. The company is in the process of expanding its retail space in key markets. The company's ability to scale up, while increasing the share of value-added jewellery and improving the margins is key to prospects.

**Stable financial risk profile**

Jewellery retailing business is inherently working capital intensive due to higher-level inventory holding in retail stores. KJPL had maintained an aggressive inventory policy of maintaining higher variety inventory at stores, leading to higher working capital borrowings for funding it. The company has negligible term-loan from banks and unsecured loans of ₹62.52 crore from promoters, which do not have repayment schedule. The company primarily uses gold metal loans to fund its working capital, which come at lower interest rate. Debt taken for computing overall gearing includes customer advances collected as part of jewellery schemes. Against these advances collected as part of the scheme, the company also blocks inventory for the customer. As of March 2024, customer advances under gold scheme have increased by 38% compared to previous year with total debt including customer advances increasing to ₹2359 crore as on March 31, 2024 (PY: 2210 crore), despite a reduction in bank limit utilisation. However, with higher profit and accruals, overall gearing has improved from 1.14x as on March 2023 to 0.99x as on March 2024 and 0.98x as on December 31, 2024. Debt coverage indicators also improved marked by interest coverage ratio of 13.74 for FY24 (PY: 12.69) and TD/GCA of 4.92x in FY24 (PY: 5.16x).

**Key Weaknesses****Geographical revenue concentration; albeit Diversification being planned**

The company's revenue is highly concentrated in Andhra Pradesh and Telangana, with these two regions accounting for a significant portion of total sales over the years. The company has established a leadership position in Andhra Pradesh and Telangana, benefiting from a first-mover advantage in these regions. In FY24, Andhra Pradesh accounted for 69% of the company's total revenue, with Telangana contributing 16%. Of total 38 showrooms, 20 showrooms are in Andhra Pradesh covering ~60% of overall showroom floor space. The company is expanding its presence in other key markets, aiming to diversify its geographical footprint and reduce reliance on its traditional markets.

**Highly working capital-intensive operations**

KJPL's business is working capital intensive because of large inventory required to be maintained by the company across its stores. As the company operates retail showrooms, it maintains optimal inventory across showrooms in terms of quantity and designs at the stores to attract more customers. Gold inventory accounts for ~90% of the company's total current assets reflected in high inventory days at ~169 days in FY24 (PY: 163 days) with modest inventory turnover of ~2.18x. The gold retail business is inherently a working capital intensive one, and therefore, the working capital intensity is likely to remain at elevated levels. KJPL's ability to improve inventory turnover is critical for the company's credit profile.

**Exposure to gold price fluctuations, high competition, and regulatory risks**

The gems and jewellery sector is highly fragmented. The retail segment has high dominance of unorganised players and more so in case of manufacturers. There is a pressure on pricing flexibility of the organised players, which impacts margins of companies. However, there is a shift to more organised retailers in the industry in the last decade, which has given way to more pan-Indian players in the retail segment. The jewellery sector has seen high regulatory interventions in the last with recent developments including customs duty cut on gold imports. On the 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 have impacted the fund flow to this sector. Intense competition in a segment with volatility in prices and frequent regulatory interventions would continue to impact companies in the segment.

### Liquidity: Strong

The company has a comfortable GCA of ₹479.85 crore in FY24 against negligible repayment obligations. The company also has free cash and bank balances of ~₹27.32 crore and FD of ₹428.82 crore encumbered against gold metal loans as of December 31, 2024. Average fund-based working capital utilisation averaged ~43% for 12-months ended November 2024.

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Retail](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

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

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 Kishore Kumar Jain who has been engaged in the gold jewellery business as wholesaler since 1975. KJPL is primarily engaged in retailing gold jewellery, diamonds, silverware and platinum jewellery through its 38 retail showrooms across Andhra Pradesh (20 showrooms), Telangana (6), Tamil Nadu (7), Karnataka (3), Pondicherry (1), Orissa (1).

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | 9M FY25 (UA) |
|----------------------------|--------------------|--------------------|--------------|
| Total operating income     | 7,880.98           | 8,980.87           | 7,691.52     |
| PBILDT                     | 595.45             | 667.44             | 756.39       |
| PAT                        | 390.45             | 436.10             | 530.32       |
| Overall gearing (times)    | 1.14               | 0.99               | 0.98         |
| Interest coverage (times)  | 12.69              | 13.74              | 28.31        |

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

**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/ ST-Cash Credit                  |      | -                             | -               | -                          | 825.00                      | CARE A+; Stable / CARE A1+         |
| Fund-based - LT/ ST-Working Capital Limits       |      | -                             | -               | -                          | 675.00                      | CARE A+; Stable / CARE A1+         |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG |      | -                             | -               | -                          | 0.00                        | Withdrawn                          |

**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       | Term Loan-Long Term                              | LT              | -                            | -                          | -   | -   | 1)Withdrawn (06-Jan-23)                     | 1)CARE A; Stable (16-Dec-21)                |
| 2       | Fund-based - LT/ ST-Cash Credit                  | LT/ST           | 825.00                       | CARE A+; Stable / CARE A1+ | -   | 1)CARE A+; Stable / CARE A1+ (08-Mar-24)    | 1)CARE A; Positive / CARE A1 (06-Jan-23)    | 1)CARE A; Stable / CARE A1 (16-Dec-21)      |
| 3       | LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG | LT/ST           | -                            | -                          | -   | 1)CARE A+; Stable / CARE A1+ (08-Mar-24)    | 1)CARE A; Positive / CARE A1 (06-Jan-23)    | 1)CARE A; Stable / CARE A1 (16-Dec-21)      |
| 4       | Fund-based - LT/ ST-Working Capital Limits       | LT/ST           | 675.00                       | CARE A+; Stable / CARE A1+ | -   | 1)CARE A+; Stable / CARE A1+ (08-Mar-24)    | 1)CARE A; Positive / CARE A1 (06-Jan-23)    | 1)CARE A; Stable / CARE A1 (16-Dec-21)      |

LT: Long term; LT/ST: Long term/Short 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/ 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           |

**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](mailto:care@careedge.in) for clarifications.

### Contact us

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### About us:

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