July 18, 2022

Navrathan Jewellers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	119.00	175.00	[ICRA]BBB+(Stable); reaffirmed
Long-term Unallocated	81.00	-	-
Short-term Fund-based limits#	(20.00)	(75.00)	[ICRA]A2; reaffirmed
Short-term – Fund-based- Working capital facilities	-	15.00	[ICRA]A2; reaffirmed
Long-term/Short term - Proposed	-	10.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1; # - sublimit of Cash Credit facility*

Rationale

The ratings reaffirmation reflects the expected steady operational and financial performances of Navrathan Jewellers Private Limited (NJPL) over the medium term, driven by its established market position in Bengaluru and proposed diversification initiatives through new store additions. Continuing from the recovery in performance in H2 FY2021, NJPL's performance improved in FY2022, driven by favourable demand conditions and consumer sentiments in spite of pandemic-induced business disruptions in Q1 FY2022. The company reported a YoY revenue growth of more than 20% in FY2022. NJPL's operating margins declined to the steady state level of ~7% in FY2022 primarily due to absence of inventory gains, which were witnessed in FY2021. Going forward, NJPL's revenues are expected to grow at a healthy pace of around 30% in FY2023, driven by strong Akshaya Tritiya sales witnessed in Q1 FY2023, steady demand from festive season and weddings along with the proposal to add three new stores in the reminder of FY2023. The operating margins are likely to remain at ~7% over the medium term on the back of increasing focus on studded jewellery despite the likely increase in marketing and promotional expenses expected to be incurred towards the new showrooms.

NJPL's debt protection metrics remain comfortable, with key ratios including interest coverage and Total Outside Liabilities to Tangible Net worth (TOL/TNW) estimated to be at around 3.5 times and 1.1 times, respectively for FY2023, despite the debt-funded store expansions envisaged. The debt protection metrics are expected to improve over the medium term, with the improvement in inventory turnover from the new showrooms, which are proposed to be added in H2 FY2023. NJPL's liquidity position is expected to remain adequate, supported by the recent enhancement in working capital limits in Q1 FY2023 and the proposed further enhancement of the same, along with the steady earnings from operations. The ratings consider NJPL's established market position, backed by the promoter's extensive experience in the industry. The ratings also factor in NJPL's high geographical concentration risks, low contribution from studded jewellery limiting profitability, high working capital requirements in the business and the vulnerability of the earnings to the volatility in gold prices The ratings also factor in the inherent regulatory risks in the jewellery industry, which could impact the retailer's performance.

The Stable outlook on the long-term rating reflects ICRA's opinion that NJPL's performance in the coming quarters will continue to benefit from its established market position, focus on store expansion in new regions and concentration on increasing contribution from the studded jewellery and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established market presence in Bengaluru – NJPL enjoys an established presence in the Bengaluru region, with the entity operating its showrooms in the prominent locations of M.G. Road, Jayanagar, Rajajinagar, Ulsoor and the newly added showroom on CT street (added in Q1 FY2023) within the city. Vast experience of the promoters in the jewellery industry and focus on providing niche ornament designs that suit the specific tastes and preferences of the customers have enabled the company to establish the Navrathan brand and capture a loyal customer base, which has driven its revenue growth through repeat purchases. Its healthy brand equity is illustrated by the steady retail revenue growth despite the presence of many large regional/national chains in the market over the last decade. Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting organised players like NJPL over the years.

Comfortable financial profile – NJPL's financial profile remains comfortable, characterised by adequate debt protection metrics and liquidity position. Despite moderation in earnings in FY2022 (limited by the operating margin declining to 7% in the absence of inventory gains seen in FY2021), the coverage metrics have remained at adequate levels (interest cover estimated at around 3.9 times for the fiscal). Limited reliance on external debt has also resulted in leverage indicators remaining at comfortable levels, with TOL/TNW at 0.8 times in FY2022. This is despite the high working capital requirement in the business and support extended to a group company. Going forward, with the expected steady earnings from operations over the medium term, the coverage indicators are likely to remain adequate despite the expected increase in debt levels to fund store expansions.

Credit challenges

High geographical concentration risk – NJPL faces high geographical concentration risk as all its showrooms are based out of Bengaluru, with almost 100% revenues derived from the said market in FY2022. The same has limited its revenue growth to an extent over the years due to the entry of various leading jewellery brands. NJPL is in the process of expanding its stores in the Bengaluru market in the near-to-medium term to widen its reach. However, in the absence of any major expansion in other key markets apart from the entry in the Chennai region with one showroom in H2 FY2023, the geographical concentration will continue to remain high. Further, the share of studded jewellery remains low, which is also likely to limit margin expansion over the medium term.

Performance exposed to volatile gold prices and regulatory risks in jewellery segment – Limited pricing flexibility on the back of intense competition in the region and limited hedging expose NJPL's earnings to volatile gold prices as seen in the past, while certain regulatory restrictions have aided the shift towards organised trade. Some adverse regulatory developments have impacted the domestic gold jewellery industry as a whole in the past, which include restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a certain limit, and imposition of excise duty. NJPL will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Liquidity position: Adequate

NJPL's liquidity position is adequate, supported by steady earnings from operations and adequate unutilised working capital limits. Cash buffer, including free cash reserves, liquid investments and unutilised working capital limits together are estimated to be around Rs. 50 crore as on July 2, 2022 post the recent enhancement of its limits. While the company's funding requirements towards incremental working capital requirements in the coming quarters for new showrooms are estimated to be high, its liquidity position is expected to be supported by the estimated accruals of around Rs. 40 crore in FY2023 and the proposed further enhancement of working capital limits by around Rs. 75 crore.

Rating sensitivities

Positive factors – NJPL's ratings may be upgraded if the company registers a sustained healthy growth in revenues and earnings on the back of better business diversification through store expansion. Improvement in inventory turnover, which would consequently improve its debt protection metrics and liquidity position is another positive trigger.

Negative factors – The ratings may be downgraded in case of sustained pressure on the company's operating performance or a deterioration in its working capital cycle, adversely impacting the debt protection metrics and liquidity position of the entity. Specific metrics that may result in ratings downgrade include interest cover declining below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in Gold Jewellery - Retail Industry]
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Promoted by Mr. M. Goutham Chand and his family, NJPL was incorporated in 1993. It is involved in retailing of gold, diamond, silver, platinum jewellery and gems. It also deals in antique jewellery and gold and silver wares/idols along with trading of bullion. NJPL operates four jewellery retail stores in Bengaluru. NJPL has considerable investments in its Group entity, Sri Krishna Diamonds and Jewellery (SKDJ), which has Mr. M. Gowtham Chand (45%), Mr. Nirmal Kumar (5%) and Mr. P. Sajan Rao (45%) as its partners. SKDJ is involved in jewellery retailing and has one store on Commercial Street, Bengaluru.

Key financial indicators (audited)

Navrathan Jewellers Private Limited	FY2021	FY2022*
Operating income (Rs. crore)	743.7	901.7
PAT (Rs. crore)	44.0	38.2
OPBDIT/OI	9.1%	7.0%
PAT/OI	5.9%	4.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.9	2.5
Interest coverage (times)	4.8	3.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020
					July 18, 2022	Dec 20, 2021	Oct 15, 2020	April 17, 2019
1	Cash credit	Long-term	175.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Unallocated	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Fund-based limits*	Short-term	(75.00)	-	[ICRA]A2	[ICRA]A2	-	-
4	Working capital facilities	Short-term	15.00	-	[ICRA]A2	-	-	-
5	Proposed limits	Long-term/ Short-term	10.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

*Amount in crore; Source: NJPL; * - sublimit of Cash Credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based/ Cash Credit	Simple
Short-term - fund-based limits	Very Simple
Short-term – Fund-based- Working capital facilities	Very Simple
Long-term/short-term – Proposed	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	NA	NA	NA	175.0	[ICRA]BBB+(Stable)
-	Working capital facilities	NA	NA	NA	15.0	[ICRA]A2
-	Proposed Limits	NA	NA	NA	10.0	[ICRA]BBB+(Stable)/[ICRA]A2
-	Fund based limits*	NA	NA	NA	(75.0)	[ICRA]A2

Source: *Company; * - sublimit of Cash Credit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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