

March 23, 2023

Bhima Jewels Private Limited: Ratings Assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund based Cash Credit/WCDL	600.00	728.60	[ICRA]A-(Stable)/[ICRA]A2+; Outstanding/Assigned for Enhanced Limits
Long term/Short term – Unallocated	-	1.40	[ICRA]A-(Stable)/[ICRA]A2+; Assigned for Enhanced Limits
Total	600.00	730.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to reflect the extensive experience of the promoters of Bhima Jewels Private Limited (Bhima) in the jewellery retail business, established brand presence in Kerala markets, stable demand outlook for gold jewellery retail industry over the medium-to-long term and increasing shift from unorganised trade to organised trade in the recent years. The ratings also consider the healthy financial profile of the entity, marked by stable growth in revenues and earnings, adequate liquidity, and comfortable coverage indicators.

Bhima's operational and financial performances are likely to remain stable in the coming quarters, driven by its improving business diversification and favourable demand conditions. The entity recorded a consistent growth in revenues and earnings on the back of the strong Bhima brand, with an established market position, focused marketing initiatives and favourable gold prices, resulting in inventory gains. Its borrowings have increased towards funding increased inventory holding requirements, arisen due to recent store expansions. In 9M FY2023, the company reported a healthy growth of ~24% in revenues on a YoY basis and is expected to report more than 20% growth in revenues for the whole year. Growth in the coming quarters would also be supported by the proposed expansion of the store network as well as opportunities presented by a large share of unorganised players in the industry. While its margins are likely to witness some correction in the current fiscal amid volatility in gold prices and higher operational costs on account of store expansion, it is expected to stabilise at around 6% over the coming fiscals on the back of increasing focus on studded jewellery. Further, Bhima's capital structure has remained conservative, with limited dependence on external debt on the back of a steady growth in earnings.

The ratings, however, are constrained by the company's moderate operating profitability owing to low contribution from studded jewellery, high working capital requirements in the business and vulnerability of earnings to volatility in gold prices. The ratings are also constrained by intense competition in a fragmented industry structure, geographical concentration in Kerala (~30% of revenues derived from a single showroom) and regulatory risks associated with jewellery business.

The Stable outlook on the rating reflects ICRA's expectations that the entity's operational and financial performances will continue to benefit from the favourable demand conditions, its established market position, increasing focus on expansion in new markets and increased share of studded jewellery along with comfortable capitalisation level.

Key rating drivers and their description

Credit strengths

Experience of promoters and established brand presence – Mr. K. Lakshminarayana Bhattar (father of Mr. Bindu Madhav, the promoter) laid the foundation for Bhima Jewellers in Alleppy in 1925. Bhima, led by Mr. Bindu Madhav, has been in existence

since 1990, with ten showrooms in Kerala and one each in Tamil Nadu and Karnataka till FY2022. In July 2022, they have opened two showrooms in Telangana. The company benefits from the extensive experience of its promoter in the jewellery retail industry and the established presence of the Bhima brand for over nine decades in the South Indian jewellery retail market.

Comfortable coverage indicators – The entity has comfortable coverage indicators with an interest coverage ratio of 3.9 times in FY2022. The same moderated from 6.9 times in FY2021 due to higher interest expenses on the back of increased working capital borrowings towards funding additional inventory holding requirement, arisen due to recent store expansion. The net cash accrual to debt ratio remained at 18% in FY2022. The coverage indicators are expected to remain satisfactory over the medium term primarily on account of sustenance in the operating margin due to operating efficiencies achieved through centralisation of operations post the slump sale.

Growth prospects in jewellery segment underpinned by large industry size and fragmented market share – 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 Bhima over the years. Further, Bhima's sizeable presence across the major markets in Kerala and Tamil Nadu, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support the organised trade and provide better opportunities in the near term.

Credit challenges

Exposed to intense competition and geographical concentration risks – The gold jewellery retail business is highly fragmented and competitive. The pricing flexibility of industry players remained under pressure with continuous store expansion by larger retailers in the recent years. This coupled with limited value addition in the products keeps the operating margins lower for most of the players, including Bhima. Nevertheless, the competition is mitigated to an extent by Bhima's long presence in the industry and a strong brand image. The entity also faces geographical concentration risks with ~30% of the revenues coming from a single showroom. In FY2022, ~85% of its revenues came from the Kerala Market. However, going forward, the revenues are expected to become more diversified as they are keen on expanding in new geographies.

Moderate operating profitability – The entity's operating margins are expected to remain at moderate levels, constrained by low contribution from the studded jewellery, limited margins and lack of pricing flexibility owing to intense competition in key markets. Further, its earnings remain exposed to volatility in gold prices, as seen in the past. A part of the price volatility risk is mitigated by Bhima's limited hedging and bargaining power to procure gold at competitive rates.

Performance exposed to regulatory risks prevalent in jewellery segment – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold and imposition of excise duty are some of the regulations that have impacted business prospects in the past. Bhima remains exposed to changes in regulations that may impact its business profile.

Liquidity position: Adequate

The entity's liquidity position is expected to remain comfortable, supported by steady earnings from operations and unutilised lines of credit. The average utilisation of its fund-based limits over the last 12 months ending December 2022 stood at around ~83% of the drawing power. While the entity's funding requirements towards capital expenditure and debt repayments are estimated to be limited at Rs. 25 crore in FY2023, it is expected to generate accruals of ~Rs. 100 crore in the fiscal. The incremental working capital requirements to support the expansion are likely to be funded through a mix of surplus earnings and unutilised working capital limits.

Rating sensitivities

Positive factors – Bhima’s ratings may be upgraded if the company registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to ratings upgrade include an interest coverage ratio above 5.0 times on a sustained basis.

Negative factors – The ratings may be downgraded in case of sustained pressure on debt protection metrics and liquidity position of the entity. Specific credit metrics that could lead to ratings downgrade include the interest coverage reducing to less than 3.0 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 profile of the company

About the company

Bhima Cochin Group, set up in 1978 (pursuant to the family succession planning), was promoted by Mr. Bindu Madhav of the Bhima Bhattar family, which has been in the jewellery business since 1925. In April 2018, the Bhima Group (Cochin) underwent internal restructuring wherein the business operations of Bhima Jewels, Bhima Boutique Private Ltd. and Bhima Silver Palace were transferred to Bhima Jewels Private Limited through slump sale. Bhima is a leading gold jewellery retailer with 14 showrooms, among which 10 showrooms are in Kerala, two in Telangana and one showroom each in Tamil Nadu and Karnataka. The company’s product profile consists of ~90% gold jewellery that includes chains, bangles, antique jewellery, necklaces etc. and the balance comprises diamond, platinum, silver, precious stones, among others.

Key financial indicators (audited)

Bhima Jewels Private Limited	FY2021	FY2022
Operating income	2,416.6	2,557.5
PAT	102.1	76.2
OPBDIT/OI	7.83%	6.18%
PAT/OI	4.22%	2.98%
Total outside liabilities/Tangible net worth (times)	2.5	2.2
Total debt/OPBDIT (times)	2.3	3.2
Interest coverage (times)	6.9	3.9

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated	Amount outstanding as of Mar 31, 2022	Current rating (FY2023)		Chronology of rating history for the past 3 years			
				Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				March 23, 2023	March 10, 2023	February 1, 2022	December 14, 2021		
1	Cash Credit/WCDL	728.6	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
2	Issuer Rating	-	--	-	[ICRA]A-(Stable); Withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)		
3	Unallocated	1.4	-	[ICRA]A-(Stable)/[ICRA]A2+					

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund Based Cash Credit/WCDL	Simple
Unallocated	NA

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/WCDL	NA	NA	NA	728.6	[ICRA]A-(Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	1.4	[ICRA]A-(Stable)/[ICRA]A2+

Source: Bhima

[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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