July 27, 2022

Emerald Jewel Industry India Limited: Ratings reaffirmed, Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	113.81	142.72	[ICRA]A-(Stable); reaffirmed
Long-term fund-based working capital facilities	540.00	628.00	[ICRA]A-(Stable); reaffirmed
Short-term non-fund based	4.00	5.00	[ICRA]A2+; reaffirmed
Long/ Short term – Interchangeable	(388.00)	-	-
Long/ Short term – Unallocated	2.19	11.87	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Fixed Deposit	100.00	100	[ICRA]A-(Stable); reaffirmed
Total	**760.00**	**887.59**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation reflects the expected steady growth in revenues and earnings of Emerald Jewel Industry India Limited (EJIIL) over the medium term, driven by improved demand conditions and focused marketing efforts. EJIIL's revenues surged by around 18% in FY2022, mainly driven by volume growth of around 50%. While the operating margin declined to 3.6% in FY2022 from 4.2% in FY2021, the net cash accruals remained healthy at ~Rs. 101 crore due to higher growth in revenue. The revenue is expected to grow by ~ 25% in FY2023, driven by the likely growth in the gold jewellery manufacturing segment amid preference for organised manufacturers like EJIIL. Further, increasing focus on shop-in-shop (SIS)-based marketing across products, widening of dealer base for the silver division and improving the inventory turnover in the retail segment are likely to support performance over the medium term.

The ratings continue to derive comfort from the adequate coverage metrics, with the key ratios including interest coverage and debt service coverage ratios estimated at 4.2 times and 2.5 times, respectively in FY2022, which are expected to remain comfortable in the near term. However, its leverage and return indicators remain at moderate levels, limited by the relatively low operating margins of 3.5-4.0% generated by the manufacturing segment, and the continued weak earnings generated by the retail segment. Thus, the ability of the company to reduce stock levels through better stock turnover and increase profitability through higher volumes and capacity utilisation levels would be key rating monitorables. With no major capital expenditure envisaged and incremental funding requirements to be met with cash accruals, ICRA expects EJIIL's Total Outside Liabilities to Tangible Net Worth (TOL/TNW) and Return on Capital Employed (RoCE) to improve to 1.4 times and 14%, respectively in FY2023. The ratings continue to factor in EJIIL's strong market position in the jewelry industry, with a diversified business profile along with a large and integrated manufacturing set-up, which supports its operating efficiency in the manufacturing segment. The ratings also consider intense competition prevailing in the jewellery manufacturing and retailing industry, which limits the company's pricing flexibility and margins, and the vulnerability of earnings to volatility in gold prices and regulatory risks.

The Stable outlook reflects ICRA's expectation that the operational and financial performances of the company will continue to benefit from its established market position, long presence, its large and integrated manufacturing set-up, vast design library that poses high entry barriers to entrants and extensive industry experience of the promoter, spanning across three decades.

Key rating drivers and their description

Credit strengths

Strong market position in jewellery manufacturing business – EJIIL is one of the leading jewellery manufacturers with an established presence both in the manufacturing and the retail segments. Its flagship brand, Jewelone, enjoys strong recall, and its performance over the years has been supported by its diversified business profile and established network across the value chain. Extensive experience of the promoters spanning over three decades has also aided in the company's performance through better operating efficiencies and strong relationship with channel partners.

Large and integrated manufacturing set-up – EJIIL is one of the largest organised jewellery manufacturers with a production capacity of 36 tonnes of gold jewellery and 180 tonnes of silver jewellery per annum. Its large scale, highly integrated nature of operations, extensive design library and quality conscious manufacturing process pose strong entry barriers for new entrants as well as established retailers intending to enter the manufacturing space. EJIIL's lead time for manufacturing has improved steadily over the years on the back of its strong manufacturing set-up, supporting EJIIL to optimise the working capital cycle for its manufacturing operations. Further, the recent capacity additions in the silver manufacturing business would aid the company to increase its focus on the sale of margin-accretive silver jewellery and sell fashionable silver jewellery under the brand 'Zilara by JewelOne' under the shop-in-shop model with leading textile/jewellery showrooms across India.

Improving formalisation of jewellery sector to support organised trade – The jewellery manufacturing sector is fragmented with presence of many unorganised players, which has squeezed the margins over the years. However, regulatory changes mandating increased transparency and compliance are expected to create a difficult operating environment for the unorganised players. Mandatory hallmarking of gold jewellery from June 16, 2021 and preference for organised manufacturers are expected to provide better opportunities for players such as EJIIL, leading to improved market share.

Credit challenges

Moderate leverage indicators and profitability – EJIL's leverage indicators have remained at moderate levels, characterised by estimated total debt to operating profits and TOL/TNW of around 4.3 times and 1.5 times, respectively, for FY2022 on the back of high working capital-intensive operations. While the high stock levels and associated external funding for the same had attributed to that increase, leverage indicators are expected to improve in the coming quarters with liquidation of stock. Further, the operating margins and the return indicators have remained at modest levels of 3.6% and 11.7%, respectively, for FY2022, constrained primarily by weak earnings generated by the retail division. Tepid demand conditions in the recent fiscals have limited the earnings from the retail operations.

Exposure to intense competition and regulatory risks – Intense competition from unorganised players in the manufacturing segment and other established brands in the retail segment limits the company's pricing flexibility and bargaining power to some extent, eroding its profitability and exposing earnings to fluctuations in gold prices. Further, increased regulatory intervention in the jewellery industry in the recent years has impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to Gold Metal Loans(GML) (albeit for a brief period), mandatory Permanent Account Number (PAN) disclosure requirement for purchases above Rs. 2 lakh, restrictions on jewellery saving schemes, changes in duty structures, GST implementation, inclusion of jewellery sector under the Prevention of Money Laundering Act (albeit for a brief period) affected both demand and supply. Increasing supervision and cautious lending environment further restricted fund flows to the sector, hampering the store expansion plans of retailers. Nevertheless, the mandatory hallmarking of gold jewellery is expected to benefit organised players like EJIIL.

Liquidity position: Adequate

EJIIL's liquidity position is likely to remain adequate, supported by the steady earnings from operations and adequate unutilised lines of credit enjoyed (cash buffer of around Rs. 40.00 crore as on June 30, 2022). While the utilisation levels had been on the higher side, cash flows are expected to improve with steady improvement in demand conditions. The average utilisation levels over the last 11 months stood at 94% and are likely to remain at around 85-90%. Further, the company is likely to generate cash accruals of more than Rs. 120-130 crore per annum in FY2023 against a combined funding requirement for debt repayment obligation and capital expenditure worth around Rs. 70.0 crore over the next 12 months.

Rating sensitivities

Positive factors – A sustained growth in the scale of operations and earnings coupled with an improvement in the working capital cycle, which result in better credit metrics and liquidity position, may result in ratings upgrade. Specific credit metrics that could lead to ratings upgrade include TOL/TNW of less than 1.3 times and interest coverage of more than 5.0 times on a sustained basis.

Negative factors – Pressure on the ratings will emanate if a decline in earnings or an elongation in the working capital cycle results in a deterioration of its credit metrics and liquidity position. Specific credit metrics that could lead to ratings downgrade include an interest coverage of less than 3.5 times on a sustained basis and TOL/TNW of more than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Emerald Jewel Industry India Limited, Emerald Jewellers DMCC (Dubai) and Indiania Jewellery Company Private Limited

About the company

EJIIL was promoted by Mr. K Srinivasan in 2004. EJIIL manufactures and markets gold jewellery .The company is engaged in retail business through its 14 showrooms spread across South India under the brand 'JewelOne' . Targeting both local and export markets, the company has four manufacturing facilities in Coimbatore carrying out different activities – namely machine made jewellery manufacturing, hand-made jewellery, electro-forming, fusion technology, etc. Though gold jewellery has been its major source of revenue, the company also manufactures and sells diamond and silver jewellery (under it brand 'Zilara'). EJIIL has two subsidiaries namely Indiania Jewellery Company Pvt. Limited and Emerald Jewellers DMCC, Dubai.

Key financial indicators -Consolidated

EJIIL	FY2021(A)	FY2022(Prov)
Operating Income (Rs. crore)	3,976.3	4,710.6
PAT (Rs. crore)	86.1	85.9
OPBDIT/OI (%)	4.2%	3.6%
PAT/OI (%)	2.2%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.5
Total Debt/OPBDIT (times)	3.8	4.3
Interest Coverage (times)	4.1	4.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited

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 of Mar 31,2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					July 27,2022	June 02,2022	Jul 29, 2021	Jun 29, 2021	-	Mar 16, 2020
1	Term loan	Long term	142.72	141.02	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
2	Fund based limits	Long term	628	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
3	Fund based limits	Short term	-	-	-	-	-	-	-	[ICRA]A2+
4	Non-fund based limits	Short term	5	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
5	Interchangeable limits	Long / Short term	-		-	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+
6	Unallocated facilities	Long / Short term	11.87		[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	[ICRA]A-(Stable)/ [ICRA]A2+
7	Fixed deposit programme	Long term	100		[ICRA]A-(Stable)	[ICRA]A-(Stable) migrated from Medium term and removed from notice of withdrawal	MA-(Stable); placed on notice of withdrawal for a period of 6 months	MA-(Stable)	-	MA-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Term Loans	Simple
Long-term fund-based working capital facilities	Simple
Short-term non-fund based	Very Simple
Long/ Short term – Unallocated	Not Applicable
Fixed Deposit	Very Simple

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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Nov 2017	-	Sep 2028	142.72	[ICRA]A-(Stable)
NA	Long-term fund-based working capital facilities	-	-	-	628	[ICRA]A-(Stable)
NA	Short-term non-fund based	-	-	-	5	[ICRA]A2+
NA	Long/ Short term – Unallocated	-	-	-	11.87	[ICRA]A-(Stable)/[ICRA]A2+
NA	Fixed Deposit	-	-	-	100	[ICRA]A-(Stable)

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Emerald Jewellers DMCC (Dubai)	100%	Full Consolidation
Indiana Jewellery Company Private Limited	72.50%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
91-33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
91-22- 61693328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
91-33- 7150 1111
sumit.jhunjhunwala@icraindia.com

Gaurav Singla
91-124- 4545366
gaurav.singla@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches