

August 10, 2023

Emerald Jewel Industry India Limited: Ratings reaffirmed/assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	142.72	122.05	[ICRA]A-(Stable); reaffirmed
Long-term fund-based working capital facilities	628.00	788.00	[ICRA]A-(Stable); reaffirmed/assigned for enhanced amount
Short-term non-fund based	5.00	0.00	-
Long/ Short term – Unallocated	11.87	0.15	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Fixed Deposit	100.00	100.00	[ICRA]A-(Stable); reaffirmed
Total	887.59	1010.20	

*Instrument details are provided in Annexure-I

Rationale

The ratings reflect ICRA's expectations that Emerald Jewel Industry India Limited's (EJIL) financial risk profile will remain comfortable over the medium term on the back of higher sales volumes expected from the enhanced capacity, which will support the operating margin through better efficiency in the manufacturing segment. The export volumes are also expected to increase, which is margin accretive. Further, increasing focus on shop-in-shop (SIS)-based marketing across products, widening of the dealer base for the silver division and improving the inventory turnover in the retail segment are likely to support its performance over the medium term. While the average working capital utilisation, as a percentage of the sanctioned limits, remains moderately high, EJIL has been able to timely enhance the limits in the past as and when required, reflecting comfortable financial flexibility of the entity.

The ratings also take into consideration the estimated steady revenue growth of ~22% in FY2023, on a consolidated basis, driven by healthy volume and increased sales realisation. However, the consolidated operating margin is estimated to decline to 2.7% in FY2023 from 3.4% in FY2022, which also moderated the debt protection metrics in the last fiscal. Further, its leverage and return indicators remain at moderate levels, limited by the relatively lower operating margins generated by the manufacturing segment. Nonetheless, the revenue is expected to grow by 25-30% in FY2024, driven by the likely growth in the gold jewellery manufacturing segment and the expected increase in production of gold chains from October 2023. Thus, better operating efficiency is expected to support the operating margin and debt coverage indicators in the current fiscal.

The ratings also consider intense competition prevailing in the jewellery manufacturing and retailing industry, which limit the company's pricing flexibility and margins, and the vulnerability of earnings to volatility in gold prices and regulatory risks. However, EJIL's strong market position in organised jewellery, with a diversified business profile along with a large and integrated manufacturing set-up, mitigates the same to an extent.

The Stable outlook reflects ICRA's expectation that the operational and financial performances of the company will continue to benefit from its focus on higher volumes and healthy accruals relative to its debt servicing obligations.

Key rating drivers and their description

Credit strengths

Strong market position in jewellery manufacturing business – EJIL 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. The extensive experience of the promoters spanning over three decades has also aided in the company's performance through better operating efficiencies and strong relationships with channel partners. The consolidated revenue of EJIL is estimated to grow by ~22% in FY2023 and further expected to grow by 25-30% in FY2024, driven by the likely growth in the gold jewellery manufacturing segment and an expected increase in the production of gold chains from October 2023.

Large and integrated manufacturing set-up – EJIL 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. EJIL's lead time for manufacturing has improved steadily over the years on the back of its strong manufacturing set-up, supporting EJIL to optimise the working capital cycle for its manufacturing operations. Further, the recent capacity expansion for gold jewellery manufacturing (1 tonne per month) in Chennai would aid the company to increase its scale of operations.

Favourable long-term growth prospects for organised jewellery retailers – 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. The industry tailwinds are expected to benefit the organised jewellery players such as EJIL, leading to an improved market share.

Credit challenges

Moderate leverage indicators and profitability – EJIL's leverage indicators have remained at moderate levels, characterised by estimated consolidated total debt to operating profits and TOL/TNW of 4.7 times and 1.8 times, respectively, in FY2023 on the back of high working capital-intensive operations. Further, the estimated consolidated operating margins and return indicators have remained at modest levels of 2.7% and 11.3%, respectively, in FY2023, constrained primarily by low profit margins owing to higher production of gold chains and increased employee costs. However, with the expected improvement in scale, the operating margin and return indicators are likely to improve in the current fiscal.

Exposure to intense competition and regulatory risks – Intense competition from unorganised players in the manufacturing segment and other established brands in the retail segment limit 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.

Liquidity position: Adequate

EJIL's liquidity position is adequate with healthy cash flow from operations relative to its debt servicing obligations. However, the average working capital utilisation, as a percentage of the sanctioned limits, remains moderately high. Nonetheless, the company has been able to enhance its working capital limits on a timely basis, reflecting comfortable financial flexibility of the entity.

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 an 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.

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 India Jewellery Company Private Limited.

About the company

EJIL was promoted by Mr. K Srinivasan in 2004. EJIL manufacture and markets gold jewellery. The company is involved in retail business through its 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 like machine-made jewellery manufacturing, hand-made jewellery, electro-forming, fusion technology, etc. The company has commissioned a unit in Chennai in July 2023. Though gold jewellery has been its major source of revenue, the company also manufactures and sells diamond, platinum and silver jewellery (under its brand, Zilara). EJIL has two subsidiaries, namely, India Jewellery Company Pvt. Limited and Emerald Jewellers DMCC, Dubai.

Key financial indicators (audited)

EJIL	FY2021	FY2022	FY2023^	FY2021	FY2022
	Standalone			Consolidated	
Operating income	3,763.2	4,426.0	5,779.4	3,976.3	4,722.8
PAT	91.5	76.3	77.0	86.1	82.1
OPBDIT/OI	4.6%	3.6%	2.7%	4.2%	3.4%
PAT/OI	2.4%	1.7%	1.3%	2.2%	1.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.5	1.6	1.6	1.6
Total debt/OPBDIT (times)	3.2	4.2	4.7	3.3	4.2
Interest coverage (times)	4.4	4.0	3.0	4.1	4.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ^provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years					
			Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
				Aug 10, 2023	July 31, 2023	July 27, 2022	June 02, 2022	Jul 29, 2021	Jun 29, 2021	-
1 Term loan	Long term	122.05	122.05	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2 Fund based limits	Long term	788.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
3 Non-fund-based limits	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4 Interchangeable limits	Long / Short term	-	-	-	-	-	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-
5 Unallocated facilities	Long / Short term	0.15	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-
6 Fixed deposit programme	Long term	100.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[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)	-

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Nov 2017	-	Sep 2028	122.05	[ICRA]A-(Stable)
NA	Long-term fund-based working capital facilities	-	-	-	788.00	[ICRA]A-(Stable)
NA	Long/ Short term – Unallocated	-	-	-	0.15	[ICRA]A-(Stable)/[ICRA]A2+
NA	Fixed Deposit	-	-	-	100.00	[ICRA]A-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Emerald Jewellers DMCC (Dubai)	100.00%	Full Consolidation
Indiania Jewellery Company Private Limited	72.50%	Full Consolidation

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