

# AURORA DESIGN PLC

No. 209/2024  
8 November 2024

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns a company rating on Aurora Design PLC (AURA) at “BBB” with a “stable” rating outlook. The rating reflects AURA’s market position as one of the leading gold jewelry retailers in Thailand, its long track record with well-recognized brands, and extensive branch network covering all regions of Thailand. The rating is weighed down by an expected rise in financial leverage from the company’s ambitious expansion plans and its exposure to fluctuations in gold prices.

## KEY RATING CONSIDERATIONS

### Leading gold jewelry retailer with ambitious expansion plans

AURA is one of the leading gold jewelry retailers in Thailand. The company offers a full range of services, including retail sales and purchases of gold, as well as gold-backed financing. AURA has an extensive network of branches across all regions of Thailand, allowing the company to reach a broad range of customers. Since its initial public offering on the Stock Exchange of Thailand (SET) in late 2022, the company has expanded its store network significantly. As of June 2024, the company operated 451 stores, up from 279 stores in 2022. This expansion is primarily attributed to the addition of 141 new “Thong Ma Ngern Pai” gold financing outlets, 30 “Seng Heng” and “Aurora” stores, and one “Aurora Diamond” outlet. To access new consumer segments and provide greater convenience to its customers, AURA has established online sales channels through e-commerce platforms and its corporate website. However, as of 2023, online channels contributed a relatively modest amount, equivalent to approximately 5% of the company’s total revenue.

The company’s overall revenue increased modestly in 2023, rising by 1% to THB29.6 billion. However, the company’s profitability improved, with the EBITDA margin increasing to 5.9% in 2023 compared with 5.0% in 2022. It’s EBITDA rose to THB1.7 billion in 2023 from THB1.5 billion in 2022. This was driven by a higher modern gold margin and increased interest income generated by the gold-backed financing business.

Looking forward, AURA’s revenue is forecast to grow to THB33.6 billion in 2024 and THB38.7 billion in 2026, primarily driven by the company’s ongoing store expansion strategy. We anticipate the company will add approximately 70-100 new locations per year between 2024 and 2026, with a focus on Thong Ma Ngern Pai gold financing outlets. We project domestic gold prices to average around THB40,000 per baht weight of gold in 2024-2026. We project the company will generate EBITDA of roughly THB2.0-THB2.4 billion per year in 2024-2026, with an EBITDA margin hovering around 6%.

### Well-accepted brands and effective control system

The gold retail market in Thailand is characterized by its high fragmentation, with a large number of sellers and little product differentiation. However, AURA’s gold jewelry brand “AURORA” is widely accepted, thanks to the company’s long track record in the business, extensive branch coverage, and reliable products and services with consistent standards across all branches. In addition, AURA has introduced brands such as “Seng Heng”, “Khong Kwan by AURORA”, and “AURORA Diamond” to reach a broader spectrum of customers. The company’s main products are gold ornaments, which may be considered fashion accessories, gifts for special occasions, or as a form of savings or investment. The company offers three categories of products, comprising

modern gold, design gold, and diamond products. Modern gold is the major revenue contributor, accounting for 95% of total revenue and 71% of gross profit in 2023.

Given the high value of the company's products, rigorous inspection and control systems are essential in daily operations. Scheduled product counts and random inspections are undertaken to mitigate the risk of product loss and fraudulent incidents. AURA has installed security systems such as closed-circuit television (CCTV) cameras and alarms to minimize the possibility of theft or robbery at its stores. The company also has insurance to mitigate event risk.

#### **Exposure to gold price volatility**

The profitability of the company could be severely affected in the event of a persistent decline in gold prices for an extended period, although such occurrences have been infrequent in the past. The company has mitigated the risk of gold price volatility through effective inventory management. Additionally, the company uses a daily net settlement mechanism for gold trading volume to maintain inventory at an appropriate level. This approach effectively eliminates gold price speculation and instead focuses on generating earnings through margins on gold sales and discounts on purchases.

Changes in gold prices benefit the company in different aspects. Generally, AURA tends to sell more gold when prices are decreasing, enabling the business to earn more fees. On the other hand, customers tend to sell more gold as prices increase, which enables the company to purchase more gold at discounts from gold reference prices, reducing the company's cost of gold inventory.

#### **Manageable risk in expansion of gold-backed financing**

AURA offers gold-backed financing services at all of its AURORA branches and Seng Heng stores, and in stand-alone stores that mainly focus on gold financing called Thong Ma Ngern Pai. The company provides loans to customers secured by gold or diamond jewelry collateral, with the majority backed by gold. The loans have two-month terms with a loan amount that is discounted 7% to 12% from the collateral value. This discount serves as a buffer against potential declines in gold prices during the loan term.

AURA's gold financing portfolio has exhibited significant expansion, with account receivables increasing to THB4.1 billion in the first half of 2024 from THB1.9 billion in 2022. The company aims to further grow this portfolio, with our base-case forecast projecting a gradual rise to approximately THB6 billion by the end of 2026. The company's effective lending rate on gold financing was approximately 13% in 2023. We expect the company to maintain this rate throughout the forecast period.

#### **Rising financial leverage due to business expansion**

The company's branch expansion strategy, with its associated increases in inventory and gold financing receivables, is expected to lead to a gradual rise in debt levels. We project AURA will make investments of approximately THB90-THB150 million per annum between 2024 and 2026 for store decoration and information technology (IT) system upgrades. Besides, the company is expected to require additional funding to increase its inventory by approximately THB2 billion and expand its gold financing portfolio by around THB2.9 billion over the next three years. These factors are expected to contribute to an increase in the company's adjusted debt to THB8.6 billion in 2026. Consequently, the debt to EBITDA ratio is forecast to gradually rise to 3.5-3.6 times in 2025-2026, up from 2.9 times in 2023.

AURA should be able to comply with the financial covenants on its bank loans over the next 12 to 18 months. The key financial covenants require the company to maintain the debt to equity ratio below 2 times, the debt service coverage ratio (DSCR) above 1.5 times, and the debt to EBITDA ratio below 5 times. As of June 2024, the ratios stood at 1.56 times, 2.67 times, and 2.71 times, respectively, in compliance with the financial covenants.

#### **Debt structure**

As of June 2024, most of the company's total debt was priority debt. As the priority debt ratio exceeds the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that AURA's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

#### **Acceptable liquidity**

We view AURA as having an acceptable liquidity profile, with sources of liquidity consisting of cash and equivalents of THB400 million and short-term undrawn credit lines of approximately THB470 million as of June 2024. We expect the company to generate funds from operations (FFO) of around THB1.4 billion in 2024. Uses of liquidity consist of bank loans coming due over the next 12 months totaling THB5.2 billion, comprising short-term loans of THB4.5 billion and long-term loans of THB700 million. We expect the company to be able to roll over its outstanding short-term loans. We also expect the company to incur capital expenditure totaling around THB150 million in 2024, along with a funding requirement of roughly THB1.8 billion for the expansion of its inventory and gold financing portfolio in 2024.

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**BASE-CASE ASSUMPTIONS**

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- Revenue to range upward from THB33.6-THB38.7 billion annually in 2024-2026.
- EBITDA margin to stay around 6%.
- Capital expenditure of around THB150 million in 2024, THB110 million in 2025, and THB90 million in 2026.
- Additional funding required for increased inventory totaling THB2 billion and for expansion of gold financing receivables totaling THB2.9 billion in 2024-2026.

**RATING OUTLOOK**

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The “stable” outlook reflects our expectation that the company will maintain its status as a major player in the gold retail industry in Thailand. The company is anticipated to utilize its experience to scale up its business in the future while maintaining stringent controls and managing operational risk at an acceptable level.

**RATING SENSITIVITIES**

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The rating could be upgraded if AURA can meaningfully enlarge its EBITDA on a sustainable basis while maintaining moderate leverage with a debt to EBITDA ratio below 3.5 times and debt to capitalization at around 50%-55%. In contrast, the rating could be revised downward if the company’s operating performance deteriorates materially or if the company makes substantial debt-funded investments, causing its leverage to rise above our expectations.

**COMPANY OVERVIEW**

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AURA was founded by Mr. Prasit Srirungthum in 1973 and was listed on SET in November 2022. As of May 2024, the Srirungthum Family was the major shareholder controlling 67% of the company’s paid-up shares. AURA operates a retail business of gold ornaments, diamond jewelry, and other related businesses. The company offers one-stop services, including selling and buying gold jewelry, after-sales services such as cleaning and repairing gold jewelry, and credit lending with gold or diamond jewelry as collateral. AURA reaches its customers through an extensive branch network, with 451 stores as of June 2024. It has six retail brands including AURORA, Seng Heng, Khong Kwan by AURORA, AURORA Diamond, Thong Ma Ngerm Pai, and D’ Ultimate, to target different customer segments. AURA has three retail product categories including modern gold, which is gold ornaments made from 96.5% gold, design gold, which is gold ornaments with a percentage other than 96.5% gold, and diamond products. Modern gold contributed 95% of total sales in 2023, while the remainder came from design gold and diamond products.

**KEY OPERATING PERFORMANCE**

**Chart 1: Revenue and Gross Profit Breakdown**

Revenue Contribution	2020	2021	2022	2023	1H24
Modern gold	95%	95%	95%	95%	95%
Design gold & diamond	5%	5%	5%	5%	5%
<b>Total revenue from sales (mil. THB)</b>	<b>19,306</b>	<b>22,095</b>	<b>29,358</b>	<b>29,578</b>	<b>15,454</b>

Gross Profit Contribution	2020	2021	2022	2023	1H24
Modern gold	81%	68%	67%	71%	81%
Design gold & diamond	19%	32%	33%	29%	19%
<b>Total gross profit (mil. THB)</b>	<b>2,000</b>	<b>1,817</b>	<b>2,295</b>	<b>2,554</b>	<b>1,641</b>

Source: AURA

**Chart 2: Thai Gold Price**



Source: Gold Traders Association

**Chart 3: Gold Financing**

Gold Financing	2020	2021	2022	2023	1H24
Outstanding loans (mil. THB)	1,216	1,208	1,899	2,724	4,096
Interest income (mil. THB)	124	160	222	302	232
Effective interest rate	11.3%	13.2%	14.3%	13.1%	13.6%

Source: AURA

**Chart 4: Number of Outlets**

Unit: Outlets	2020	2021	2022	2023	2Q24
AURORA	199	206	211	225	219
Seng Heng	1	15	22	36	44
Khong Kwan by AURORA	1	2	2	2	2
AURORA Diamond	9	8	4	3	3
D'Ultimate	-	-	-	2	2
Thong Ma Ngern Pai	5	19	40	138	181
<b>Total</b>	<b>215</b>	<b>250</b>	<b>279</b>	<b>406</b>	<b>451</b>

Source: AURA

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	15,468	29,626	29,381	22,106	19,326
Earnings before interest and taxes (EBIT)	961	1,316	1,094	886	1,127
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,207	1,736	1,481	1,250	1,456
Funds from operations (FFO)	853	1,268	1,080	914	1,036
Adjusted interest expense	188	265	221	201	212
Capital expenditures	73	125	95	70	43
Total assets	14,995	13,412	10,814	9,600	8,874
Adjusted debt	7,217	5,045	3,731	4,796	4,787
Adjusted equity	5,884	5,678	4,931	2,402	2,182
<b>Adjusted Ratios</b>					
EBITDA margin (%)	7.8	5.9	5.0	5.7	7.5
Pretax return on permanent capital (%)	13.2	12.9	13.0	11.8	17.5
EBITDA interest coverage (times)	6.4	6.5	6.7	6.2	6.9
Debt to EBITDA (times)	3.5	2.9	2.5	3.8	3.3
FFO to debt (%)	20.1	25.1	28.9	19.1	21.6
Debt to capitalization (%)	55.1	47.1	43.1	66.6	68.7

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**Aurora Design PLC (AURA)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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