



SMERA RATINGS LIMITED

Leela Gold Designs Limited (LGDL)

**Rating
Rationale****April 08, 2015**

Facility	Amount (Rs. Crore)	Rating
Cash Credit	7.50	SMERA B-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B-**' (read as **SMERA single B minus**) to the Rs.7.50 crore bank facility of Leela Gold Designs Limited (LGDL). The outlook is '**Stable**'. The rating is constrained by the company's small-scale operations and weak financial risk profile. The rating is also constrained by the company's working capital-intensive operations. The rating notes that the company's profit margins are susceptible to fluctuations in gold prices. However, the rating draws comfort from the company's experienced management.

LGDL was incorporated in 2003. LGDL undertakes manufacturing of gold chains. The company has small-scale operations marked by operating income of Rs.14.93 crore in FY2013-14. LGDL's weak financial risk profile is marked by low interest coverage of 0.25 times in FY2013-14. The company reported net loss of Rs.0.50 crore in FY2013-14. LGDL's profit margins are susceptible to fluctuations in gold prices.

LGDL's operations are working capital-intensive. The company's gross current assets (GCA) are high at 228 days in FY2013-14 mainly on account of inventory holding period of 157 days. LGDL's average bank limit utilisation is thus high at ~93 per cent during October 2014 to March 2015.

LGDL benefits from its experienced management. Mr. Parasmal Sancheti, director of LGDL, have around 30 years of experience in the gems and jewellery industry.

Rating sensitivity factors

- Ability to scale up operations while maintaining stable profitability
- Working capital management and bank limit utilisation

Outlook: Stable

SMERA believes LGDL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

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Rating Rationale

About the company

LGDL was incorporated in 2003. LGDL is promoted by Mr. Parasmal Sancheti and Mrs. Leela P. Sancheti. The company undertakes manufacturing of gold chains (both machine-made and hand-made). LGDL also undertakes job works for jewellers. The company recently shifted its processing unit to Domjur (West Bengal), and at present has a manufacturing capacity of 3,600 kilograms per annum.

For FY2013-14, LGDL reported net loss of Rs.0.50 crore on operating income of Rs.14.93 crore, as compared with profit after tax of Rs.0.30 crore on operating income of Rs.32.36 crore in the previous year. Further, the company reported operating income of Rs.9.43 crore (provisional) during April 2014 to January 2015. LGDL's net worth stood at Rs.4.39 crore as on March 31, 2014, as compared with Rs.4.89 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Email: antony.jose@smera.in Web: www.smera.in	Vinay Chhawchharia Manager – Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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