Press Release

Pondicherry Sri Lakshmi Jewellers

29 January, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 70.00 Cr
Long Term Rating	SMERA BB/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BB' (read as SMERA double B)** on the Rs. 70.00 crore bank facilities of Pondicherry Sri Lakshmi Jewellers (PSLJ). The outlook is **'Stable'**.

PSLJ, part of the PSLJ group was a proprietorship concern established by Mr. Venkatesan Chettiar in 1936 and converted to a partnership firm by Mr. K. Nagarajan, Mr. N. Naveen Baalaji, Ms. N. Sukanya and Ms. Manjulla N. The firm is engaged in the retailing of gold jewellery in Tamil Nadu.

About the Group

The PSLJ group constitutes three partnership firms - PSLJ, Lakshmi Silver (LS) and Lakshmi Sovrn alongwith Pondicherry Sri Lakshmi Jewellers Private Limited (PSLJPL). LS and Lakshmi Sovrn were established in 2013. Subsequently, PSLJPL was incorporated in 2014 and commercial operations commenced in August, 2017. PSLJ took over Lakshmi Sovrn in FY2017-18. The group is engaged in the retailing of jewellery - gold, silver, diamond and platinum and has operations spread across Pondicherry, Karaikal, Neyveli and Chidambaram.

List of key rating drivers and their detailed description

Strengths

Established market position, experienced promoters

The PSLJ group has established itself in the jewellery retail segment for more than eight decades. The group is promoted by Mr. K. Nagarajan, Mr. Naveen Balaji, Ms. Sukanya. N and Mr. Manjulla who collectively possess more than five decades of experience in the jewellery retail business. The group diversified into diamond and platinum jewellery recently and has a product range of temple jewellery, bridal wear, designer wear, diamond and platinum jewellery. It's branches are spread across Pondicherry, Karaikal, Neyveli, Chidambaram in Tamil Nadu.
Going forward, SMERA expects the group to benefit from its established presence in Pondicherry and established customer base.

Moderate financial risk profile

The financial risk profile of the group is moderate marked by tangible networth of Rs. 108.12 crore as on 31 March, 2017 as against Rs. 112.83 crore in the previous year. The gearing stood at 0.39 times as on 31 March, 2017 as against 0.94 times in the previous year. The total debt of Rs. 42.47 crore as on 31 March, 2017 includes long term debt of Rs.29.03 crore, short term debt of Rs.10.57 crore and unsecured loan from related parties of Rs.4.01 crore. The Interest Coverage ratio stood at 1.42 times for FY2017 as against 1.28 times in the previous year. The Total outside Liabilities to Tangible Networth (TOL/TNW) stood at 0.76 times as on 31 March, 2017 as against 1.60 times in the previous year. SMERA believes that the company will maintain a comfortable financial risk profile in the absence of major debt funded expansion plan and moderate working capital requirements.

Weaknesses:

Significant decline in revenue
The group reported significant decline in operating income to Rs.322.03 crore in FY2017 from Rs. 511.59 crore in the previous year on account of demonetisation in November, 2016. Maximum revenue is registered during November to March – the festival and wedding season. Jewellery purchases are largely made in cash. With demonetisation, the shortage of funds with customers affected the demand for gold jewellery. Further, as informed by the management, the group reported revenue of ~ Rs. 160 crore (Provisional) during April, 2017 to November, 2017.

Profitability susceptible to volatility in gold and silver prices
The major raw materials are gold, silver, gem stone, diamond and platinum. The prices of gold and silver have registered high volatility during the last few years. Adverse movements in prices can adversely impact profitability. However, the group reported EBITDA margin of 5.68 percent for FY2017 as against 3.94 percent for FY2016.

Geographic concentration risk and intense competition
The group is exposed to significant geographic concentration risk as its stores are located in Pondicherry, Karaikal, Neyveli and Chidambaram in Tamil Nadu. The scaling up of operations will depend on the level of economic activity and spending patterns of customers as also the level of industrial and agricultural activities in the area. Besides, the company also faces stiff competition across product categories from unorganised as well as organised retailers which limits margins.

Analytical approach:
SMERA has considered the consolidated business and financial risk profile of Pondicherry Sri Lakshmi Jewellers (PSLJ), Lakshmi Silver (LS), Lakshmi Sovrn and Pondicherry Sri Lakshmi Jewellers Private Limited (PSLJPL). The consolidation is due to the common management, shared brand name, and financial synergies within the group. The operations in Lakshmi Sovrn were discontinued in April, 2017 and moved to PSLJ in FY2017-18.

Outlook: Stable
SMERA believes that the PSLJ group will maintain a stable outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability resulting in deterioration of the financial risk profile or liquidity position.

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	322.03	511.59	377.11
EBITDA	Rs. Cr.	18.30	20.14	21.80
PAT	Rs. Cr.	4.47	3.47	4.83
EBITDA Margin	(%)	5.68	3.94	5.78
PAT Margin	(%)	1.39	0.68	1.28
ROCE	(%)	9.51	8.65	9.03
Total Debt/Tangible Net Worth	Times	0.39	0.94	1.13
PBDIT/Interest	Times	1.42	1.28	1.39
Total Debt/PBDIT	Times	2.29	5.10	5.70
Gross Current Assets	Days	203	203	298

Applicable Criteria

- Trading Entities –https://www.smera.in/criteria-trading.htm
- Default Recognition - https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Consolidation of Companies - https://www.smera.in/criteria-consolidation.htm

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	49.00^	SMERA BB/Stable (Assigned)
Term Loan	N.A	N.A	N.A.	20.47	SMERA BB/Stable (Assigned)
Proposed Term Loan	N.A	N.A	N.A.	0.53	SMERA BB/Stable (Assigned)

^Includes sublimit of bank guarantee/Standby Letter of credit of Rs. 29.00 crore

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141111 Email: shashikala.hegde@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.