

Press Release

Laxmi Dia Jewel Private Limited

October 04, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 120.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) from **ACUITE BBB-** (read as **ACUITE triple B minus**) on the Rs. 120.00 crore bank facilities of LAXMI DIA JEWEL PRIVATE LIMITED. The outlook is '**Stable**'.

The rating is downgraded on account of continuous deterioration in working capital operations and decline in operating performance of the company. The revenues have declined to Rs.250.35 crore for FY2018 as against Rs.254.94 crore for FY2017, further, the revenues have declined at Rs.215.27 crore for FY2019 (Prov.). The working capital of the company has been deteriorating on a y-o-y basis. The Gross Current Asset (GCA) stood at 355 days for FY2019 (Prov.) as against 343 days in the previous year. Further, GCA stood 309 days in FY2017. The elongation in GCA is on account of increase in inventory days which stood at 211 days for FY2019 (Prov.) as against 194 in the previous year.

Laxmi Dia Jewel Private Limited (LDJPL), incorporated in 1992, is promoted by Mr. Vasantbhai Gajera. LDJPL is engaged in manufacturing of diamond studded and gold jewellery for both segment retail as well as wholesale. The company sells its jewellery under the brand name 'Cygnus Bran'. LDJPL is a part of Laxmi Group.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Laxmi Dia Jewel Private Limited to arrive at this rating. The rating has been notched up for group support from Laxmi Group

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

The promoters of LDJPL are into diamond business since 1972. The management of the company has developed healthy relationship with its customers and has extensive experience of almost four decades in the diamond industry. Acuite believes that the business risk profile of the company will be substantially strengthened on the back of established customer relationship and experienced promoters.

- Moderate financial risk profile**

The financial risk profile of the company is moderate marked by healthy net worth and moderate coverage and debt protection metrics. The tangible net worth stood at Rs.122.85 crore as on 31 March 2019 (Prov.) as against Rs.121.14 crore as on 31 March, 2018. Gearing (Debt-equity) stood moderate at 0.59 times as on 31 March, 2019 (Prov.) as against 0.72 times in the previous year. The coverage indicators stood moderate marked by interest coverage ratio of 1.43 times for FY2019 (Prov.) as against 1.16 for FY2018. DSCR stood moderate at 1.33 for FY2019 (Prov.) as against 1.14 times in the previous year. Further, Debt-EBITDA stood at 4.65 times for FY2019 (Prov.) as against 6.40 times for FY2018. TOL/TNW stood at 0.88 times as on 31 March, 2019 (Prov.) as against 1.15 times as on 31 March, 2018. Acuite believes that the financial risk profile of the company will remain moderate in absence of any major debt funded capex and moderate net cash accruals.

Weaknesses

• Elongation in working capital

The working capital of the company has been continuously deteriorating marked by Gross Current Asset (GCA) of 355 days for FY2019 (Prov.) as against 343 days for FY2018. The elongation in GCA is majorly on account of increase in inventory days of 211 for FY2019 (Prov.) as against 194 in the previous year. However, the average bank limit utilisation of the company stood at ~90 per cent for last six months ending August 2019.

• Declining revenues

LDJPL registered revenues of Rs. 250.35 crore in FY2018 as against Rs. 254.94 crore in FY2017. Further, the revenues stood at Rs. 215.27 crore in FY2019 (Prov.). Any further deterioration in operating performance of the company will entail a negative biased towards the company.

• Intense competition from established players in the organised and unorganised sector

LDJPL operates in a highly competitive and fragmented industry characterised by large number of unorganised players affecting margins. The diamond industry is passing through turmoil at present due to the funding restrictions by the banks. Acuite expects established players like LDJPL will be able to sustain the same on account of its established presence in the market.

Rating Sensitivities

- Weakening of credit profile of Laxmi Group
- Deterioration in working capital operations or financial risk profile
- Significant improvement in working capital operations of LDJPL

Any Material Covenants

None

Liquidity Position: Stretched

The liquidity position of the company is stretched marked by continuous deterioration in working capital operations of the company. Gross Current Asset (GCA) days have been increasing since FY2017. The GCA stood at 355 days for FY2019 (Prov.) as against 309 days in FY2017. Further, the average bank limit utilisation of the company have remained at ~90 per cent for last six months ending August 2019. The company maintains unencumbered cash and bank balances of Rs. 7.21 crore as on March 31, 2019 (Prov.). Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that LDJPL will continue to benefit over the medium term due to its established market position and moderate financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving working capital management. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	215.27	250.35	254.94
EBITDA	Rs. Cr.	14.02	12.61	15.96
PAT	Rs. Cr.	1.71	-0.16	0.50
EBITDA Margin	(%)	6.51	5.04	6.26
PAT Margin	(%)	0.79	-0.06	0.20
ROCE	(%)	6.81	5.72	5.91
Total Debt/Tangible Net Worth	Times	0.59	0.72	0.71
PBDIT/Interest	Times	1.43	1.16	1.32
Total Debt/PBDIT	Times	4.65	6.40	5.62
Gross Current Assets (Days)	Days	355	343	309

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated December 26, 2018 had denoted the rating of Laxmi Dia Jewel Private Limited as 'CRISIL BB+/A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Aug-2018	Cash Credit	Long Term	30.00	ACUITE BBB- / Stable
	Cash Credit	Long Term	33.25	ACUITE BBB- / Stable
	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable
	Cash Credit	Long Term	8.00	ACUITE BBB- / Stable
	Cash Credit	Long Term	3.00	ACUITE BBB- / Stable
	Proposed Bank Facility	Long Term	33.75	ACUITE BBB- / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.25	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ / (Withdrawn)
Metal Loan	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	26.75	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- / Stable)

Cash credit of Rs. 30.00 crore is interchangeable with packing credit/standby line of credit/bank guarantee to the extent of Rs. 30.00 crore.

Cash credit of Rs. 33.25 crore is interchangeable with packing credit/standby line of credit/bank

guarantee to the extent of Rs. 33.25 crore.

Cash credit of Rs. 12.00 crore is interchangeable with packing credit/standby line of credit/bank guarantee to the extent of Rs. 12.00 crore.

Cash credit of Rs. 8.00 crore is interchangeable with packing credit/standby line of credit/bank guarantee to the extent of Rs.8.00 crore.

Cash credit of Rs. 3.00 crore is interchangeable with packing credit/standby line of credit/bank guarantee to the extent of Rs. 3.00 crore.

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuited.in</p> <p>Kashish Shah Senior Analyst - Rating Operations Tel: 022-49294042 kashish.shah@acuited.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuited.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuited.in) for the latest information on any instrument rated by Acuite.