Press Release

Lalithaa Jewellery Mart Private Limited

January 15, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 900.00 Cr.
Long Term Rating	ACUITE A / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE A' (read as ACUITE A)** on the Rs.900.00 crore bank facilities of Lalithaa Jewellery Mart Pvt. Ltd. (LJMPL). The outlook is **'Stable.'**

The rating assigned to LJMPL takes into account established track record of operations and its established market position, experienced management, its moderate financial risk profile, low albeit sustainable operating margin, low-cost business model and staggered store addition to lower the revenue concentration risks. These rating strengths are partly offset by high inventory requirement of the business, intense competitive pressures and regulatory challenges and constantly evolving customer preferences.

LJMPL - a Chennai-based jewellery chain - was founded in 1985 by Late Shri Kandaswamy. The current Chairman and Managing Director, Dr. Kiran Kumar M Jain, took over the company in 2000. The company mainly deals in gold jewellery, ranging from wedding jewellery, everyday jewellery and fashion jewellery in latest styles. The Company targets customers in the middle income group with its offerings.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of LJMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations, established market position and experienced management**

  LJMPL is amongst the leading gold jewellery players in South India. With nearly 4 decades of presence, the company also enjoys strong brand recognition in south India, which is a key gold consumption region in the country. The southern region accounts for almost 40per cent of the total gold consumption in the country with Hyderabad, Bangalore, Chennai and Cochin being the main centres.

  Dr. Kiran Kumar M Jain - Chairman and Managing Director of the company - has been in the industry since past two decades and has been taking care of the entire business operations of the company since 2000. Over the years, under the leadership of Dr. Jain, the company has not only expanded its footprint in South India but has also established itself as one of the top 10 gold jewellery players in a highly fragmented industry.

  As of August 2020, the company has 27 showrooms of which, 14 showrooms are in Tamil Nadu, 2 in Karnataka, 5 in Andhra Pradesh and others at various locations such as Telangana, Puducherry, etc. Chennai being 1st showroom of the Company has opened other larger showrooms at Vizag and Hyderabad which are the major contributors in revenue to the Company. Majority of the showrooms are on a lease basis.

  The south region is expected to continue its dominance in the gold jewellery consumption even going ahead, which Acuité believes is likely to propel LJMPL's revenue growth over the near to medium term.

- **Moderate financial risk profile**

LJMPL has a moderate financial risk profile marked by healthy net worth, moderate gearing position and comfortable debt protection indicators. The company's net worth stands at Rs.711 crore as on March 31, 2020 as compared to Rs.603 crore as on March 31, 2019 and Rs.519 crore as on March 31, 2018. The improvement in net worth of the company is attributable to healthy accretion to reserves, the latter being a result of sequential improvement in operating margins of the company over the same period.

The company follows conservative leverage policy with its peak gearing at 1.54 times as on March 31, 2018. The gearing levels, however, have sequentially improved to around to 0.96 times as on March 31, 2020, on the back of prudent inventory management policy, which has led to lower reliance on bank debt coupled with improvement in net worth levels over the same period. The gearing levels, however, are expected to increase over the medium term on account of inventory build-up requirements due to addition of new stores. The overall debt levels are also likely to increase on account of higher proportion of bank debt as compared to other conventional gold saving scheme. Acuité believes that the gearing is likely to sequentially deteriorate to around 1.3 to 1.5 times over the medium term. Any higher-than-anticipated increase in the leverage level is likely to impart a negative bias to the rating.

The moderate profitability levels coupled with low debt levels in the past have led to above average coverage metrices. The company's interest coverage ratio (ICR) remained satisfactory with its ICR standing above 2 times in the past three years. At 2.36 times in FY20, LJMPL's ICR was almost same at the year-ago level. Debt service coverage ratio (DSCR) of the company also improved to 2.07 times in FY20 from 1.84 times in FY19. Acuité, however, expects marginal moderation in the coverage metrices of LJMPL over the medium term due to initial period of operations of the new stores. A slower than expected ramp-up of operations at the new stores may further lead to deterioration of the coverage indicators and may impart a negative bias to the rating.

- **Low albeit sustainable operating margin and low-cost business model**

LJMPL has maintained its EBITDA margin level of 3-5per cent in the past. In FY20, the company's EBITDA margin stood at 4.45per cent compared to 3.28per cent in FY19. While the company's operating margin is likely to improve further in FY21 led by control over major operating expenses such as lease rents and employee cost, Acuité believes LJMPL would continue to maintain its EBITDA margin at around 4per cent in the medium term.

LJMPL has low-cost business model, where it promotes its products under 'zero making charges and low wastages (up to 9per cent in majority of the products). This has helped the company to build strong customer base and improve footfall, thereby supporting its operating margin. Acuité believes that low-cost business model would help LJMPL to accelerate its revenue growth going ahead, which was stagnant during FY18 to FY20.

- **Lowering revenue concentration with store additions**

The company has added around 4-5 stores every year in the past. This not only supports good footfall, but has also lowered revenue concentration. In FY20, top 10 showrooms accounted for around 66per cent of the company's overall revenue compared to about 77per cent in FY18. In FY20, the company added 5 stores, taking total store count to 26 with its total store area of more than 5.78 lakh square feet. In FY21 also, LJMPL is expected to add 7 stores, this would further lower revenue concentration.

Weaknesses

- **High inventory days**

Being 95-100per cent of the company's business coming from the retail segment and continuous addition of new showrooms, LJMPL has to hold higher inventory. In FY20, the company's inventory days increased to 98 days from 86 days in FY19. With this, the company's GCA stood at 95 days in FY20 compared to 87 days in FY19. High inventory days has increased the company's reliance on external working capital funds with its average working capital limit utilization standing above 92per cent in the last 12 months through November 2020. With addition of new showrooms and higher impact of Covid-19 pandemic on the discretionary segments like gold, LJMPL's working capital utilization is expected to remain high in the short-term.

- **High competitive intensity and regulatory challenges**

The gems and jewellery sector is highly fragmented. The retail segment has high dominance of unorganized players. In case of manufacturing segment, the dominance of unorganized players is even higher. This creates stiff competition for the organized players. Apart from this, regulatory intervention such as compulsory hallmarking, requirement of permanent account number (PAN) etc. change in regulation of gold related savings schemes coupled with changing consumer preferences etc. impacts the overall operating performance of the sector. Further, sudden change in gold prices also impact the gold demand.

Liquidity Position: Adequate

The company has adequate liquidity marked by higher net cash accruals and lower term-debt repayment obligations. In FY20, net cash accruals of the company stood at Rs.157.95 crore against Rs.98.18 crore in FY19. The reported maturing debt obligations for FY20 were Rs.1.53 crore. The company's current ratio also improved to 1.32 times in FY20 from 1.25 times in FY19. Further, the company's gold saving scheme has offered good support to the company's higher inventory levels. The gold saving scheme accounts for almost one-third of the company's inventory. The company maintains unencumbered cash and bank balances to the tune of Rs.11.40 crore as on March 31, 2020.

Given the Covid-19-led disruptions in the short-term, the company has availed Covid-19 emergency credit line of Rs.39.00 crore, which is repayable in 18 months. Going ahead, over a medium term, LJMPL is expected to have sufficient net cash accruals to take care of its term-debt obligations. Repayment obligations are expected to be in the range of Rs.43.00 crore to Rs. 45.00 crore against projected net cash accruals of Rs.105.56 crore and Rs.118.14 crore in FY21 and in FY22, respectively.

Rating Sensitivities

- Lower than expected revenue growth to impact profits and net cash accruals
- Lower collections under the gold saving scheme would lead to working capital pressure
- Higher than expected inventory is likely to negatively impact the financial risk profile

Outlook: Stable

Acuité believes that LJMPL will maintain 'Stable' outlook led by strong presence and brand recognition in the southern part of the country, which is the high gold consumption market in the country, rising showroom count and experienced management. The outlook may be revised to 'Positive' in case the company reports higher-than-expected growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case the company's revenue growth and operating performance gets deteriorated thereby, hurting financial risk profile and liquidity of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	7826.99	7758.18
PAT	Rs. Cr.	106.74	83.89
PAT Margin	(%)	1.36	1.08
Total Debt/Tangible Net Worth	Times	0.96	1.19
PBDIT/Interest	Times	2.36	2.31

Status of non-cooperation with previous CRA (if applicable)

CARE Ratings vide its press release dated July 06, 2020 has mentioned the rating of LJMPL to 'CARE BB+ Issuer Not Cooperating' as on July 06, 2020.

Any other information

Not Applicable

Any Material Covenants

No material covenants

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

***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	272.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	136.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	199.00	ACUITE A/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research 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 8,502 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.