

Press Release

Lalithaa Jewellery Mart Private Limited

November 08, 2021

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.1200 Cr. (Enhanced from Rs.900 Cr.)
Long Term Rating	ACUITE A/Outlook: Stable (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs.1200 Cr. bank facilities of Lalithaa Jewellery Mart Private Limited (LJMPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the recovery witnessed in the sales in H1FY22 (refers to the period April to September) as a result of new showrooms achieving break even and moderate inventory gains in the current year; post the decline in the scale of operations in FY21 (refers to the period April to March).

Further, the rating continues to derive strength from long track record of operations, established market position, and moderate financial risk profile.

The rating, however, continues to be constrained by working capital intensive nature of operations, and presence in a highly competitive & fragmented gems & jewellery industry with exposure to regulatory challenges.

About the Company

Lalithaa Jewellery Mart Private Limited (LJMPL) is a Chennai-based jewellery chain founded in 1985 by Late Mr. Kandaswamy, with its operations spread across South India. The current Chairman & Managing Director – Dr. Kiran Kumar Jain took over the company in 2000. The company mainly deals into gold jewellery, ranging from wedding jewellery, everyday jewellery and fashion jewellery in latest styles & designs; targeting the middle class income group. Apart from this, the company also deals into silver, diamond and platinum products.

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 coupled with established market position and experienced management**

LJMPL is amongst the leading gold jewellery players in South India. With over four 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 comprises almost 40 per cent of the total gold consumption in the country with Hyderabad, Bangalore, Chennai and Cochin being the main centers.

The Chairman & Managing Director of the company – Dr. Kiran Kumar Jain has been associated with the industry since the last 2 decades and has been taking care of the entire business operations of the company since 2000. Over the years, under his leadership, 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 on October 26, 2021, the company has 34 showrooms, out of which 16 showrooms are located in Tamil Nadu, 1 in Pondicherry, 10 in Andhra Pradesh, 2 in Telangana, and 5 in Karnataka. Chennai being the first showroom, the company has also opened other larger showrooms at Vizag and Hyderabad which are the major contributors to revenues of the company. Majority of the showrooms are on a lease basis.

Acuité believes that the company shall continue to benefit from the long track record of operations and experienced management.

- **Recovery in operations post easing of COVID-19 related restrictions**

The operating income of LJEMPL declined at a moderate rate of 7.43 per cent y-o-y to Rs.7245.70 Cr. in FY21 owing to a decline in the sales volumes of the retail segment led by the impact of the first wave of COVID-19 on the business operations of the company. However, led by an increase in the revenues from the wholesale segment and increase in realizations driven by higher gold prices, the y-o-y decline in the operating income in FY21 was moderate. However, in H1FY22, the net sales increased to Rs.3310.23 Cr. from Rs.2027.48 Cr. in H1FY21 owing to the things returning to normalcy after the first wave of COVID-19.

Acuite believes that the operating income of the company is likely to witness an improving trend going forward, driven by addition of showrooms and increasing revenues from the existing showrooms.

- **Growth impetus fueled by continuously increasing showroom additions and improving profit margins driven by low-cost business model**

LJEMPL has been continuously adding showrooms on a y-o-y basis, with average additions of over 4-5 showrooms per year. The company added 7 showrooms in FY21, which comprised 5 per cent of the retail sales in that year, whereas the contribution of the top 10 showrooms decreased from 69 per cent of the retail sales in FY20 to 61 per cent in FY21. Apart from decreasing revenue concentration, the addition of showrooms has also led to increase in footfalls. As on October 26, 2021, the company operates 34 showrooms in various cities across Tamil Nadu, Pondicherry, Andhra Pradesh, Telangana, and Karnataka. The company has further added 2 showrooms (in Theni, Tamil Nadu and Guntur, Andhra Pradesh) in July 2021, which are, however, yet to contribute to the revenues. Moreover, the company plans to open 4 more showrooms by the end of November 2021, and further 6 showrooms by the end of March 2022. The EBITDA margin of LJEMPL stood moderately low, however improved from 4.45 per cent in FY20 to 5.82 per cent in FY21 owing to increase in contribution of finished gold jewellery in the trading sales mix, coupled with decrease in advertisement & sales promotion expenses. Given the improvement in the EBITDA margin, the PAT margin also improved from 1.36 per cent in FY20 to 2.28 per cent in FY21. The sustainability and the marginal though continuous improvement in the profit margins is driven by the low-cost business model followed by the company, wherein the company markets its products under the concept of zero-making charges, restriction of wastage to 9 per cent, that too for a very few & exceptional items, and the product offerings affordable to the middle class income group.

- **Moderate financial risk profile**

The capital structure of LJEMPL stood comfortable with an overall gearing of 0.81 times as on March 31, 2021 as against 0.96 times as on March 31, 2020, given the higher reliance on own funds to meet the working capital requirements. Moreover, the same improved in FY21 over FY20 owing to increase in the tangible net-worth base on the back of accretion of reserves. Given this, coupled with moderate profitability, the debt coverage indicators also stood comfortable with the interest coverage and DSCR of 3.05 times and 2.53 times respectively in FY21 as against 2.36 times and 2.07 times respectively in FY20, whereas the same improved in FY21 over FY20 owing to improvement in the profitability position.

Weaknesses

- **Working capital intensive nature of operations marked by high inventory holding**

The operations of LJEMPL are working capital intensive in nature with a majority of funds of over 90-130 days blocked in inventory, given the high level of finished goods inventory required to be maintained in the showrooms. Moreover, the inventory holding period elongated from 98 days in FY20 to 124 days in FY21 owing to addition of various showrooms, wherein the finished jewellery is required to be placed for display in the newly opened showrooms. Given this, the GCA days and WC cycle also elongated from 95 days each in FY20 to 121 days and 124 days respectively in FY21. However, the amount collected throughout the 11-months-period through the chit scheme is accounted as advances from customers, which comprised 36.47 per cent of the total inventory as on March 31, 2021, as against 35.53 per cent as on March 31, 2020, whereas the same contributes majorly (more than 1/3rd) to the inventory management of the company. This helps the company in undertaking better inventory management by offsetting the high inventory holding period to a greater extent. Given the working capital intensity, the company's dependence on fund-based facilities is higher with CC/WCDL utilization of 93.88 per cent in the last 6 months ended September 2021.

- **Presence in highly competitive & fragmented industry with exposure to regulatory challenges**

The country's gems and jewellery sector is highly fragmented. The retail segment has high dominance of unorganized players, who enjoy around 70 per cent market share. While in case of the manufacturing segment, the dominance of unorganized players is even higher at around 90 per cent. Moreover, increased regulatory intervention such as gold hallmarking, requirement of PAN, etc. impact the demand-supply trend in the sector. Furthermore, the fluctuation in gold prices also impact the demand for gold.

Liquidity Position: Adequate

The liquidity profile of LJEMPL stood adequate marked by healthy net cash accruals, healthy free cash & bank balance, and moderate current ratio. The operations of the company are working capital intensive in nature with GCA days and WC cycle of 121 days and 124 days respectively in FY21 as against 95 days each in FY20. Given this, the company's dependence on fund-based facilities is higher with CC/WCDL utilization of 93.88 per cent in the last 6 months ended September 2021. However, the company generated healthy net cash accruals worth Rs.157.95 Cr. and Rs.216.54 Cr. in FY20 and FY21 respectively, as against negligible debt repayment obligations worth Rs.1.53 Cr. and Rs.0.56 Cr. in those respective years. Moreover, the free cash & bank balance stood healthy at Rs.25.73 Cr. as on March 31, 2021 as against Rs.11.47 Cr. as on March 31, 2020. On the other hand, the current ratio stood moderate at 1.39 times as on March 31, 2021 as against 1.29 times as on March 31, 2020.

Rating Sensitivities

- Lower-than-expected revenue growth thereby impacting profitability and net cash accruals
- Lower collections under the chit scheme leading to pressure in the working capital management
- Higher-than-expected elongation in the inventory holding thereby impacting the overall financial risk profile

Material Covenants

None

Outlook: Stable

Acuite believes that LJEMPL will maintain a 'Stable' outlook led by strong presence and brand recognition in the southern part of India being the highest gold consumption market in the country, along with 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 impacting its overall financial risk profile and the liquidity profile.

About the Rated Group - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	7245.70	7826.99
Profit after Tax (PAT)	Rs. Cr.	164.84	106.74
PAT Margin	(%)	2.28	1.36
Total Debt/Tangible Net Worth	Times	0.81	0.96
PBDIT/Interest	Times	3.05	2.36

Status of Non-cooperation with Previous CRA (if applicable)

ISSUER NOT COOPERATING by CARE as per its press release dated July 21, 2021

Any Other Information

Not Applicable

Applicable Criteria

- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios and Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument /Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Jan-2021	Cash Credit	Long Term	272.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	136.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	75.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	52.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	40.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	24.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	199.00	ACUITE A/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	272.00	ACUITE A/Stable (Reaffirmed)
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	136.00	ACUITE A/Stable (Reaffirmed)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A/Stable (Reaffirmed)
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A/Stable (Reaffirmed)
UCO Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A/Stable (Reaffirmed)
UCO Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A/Stable (Assigned)
Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A/Stable (Reaffirmed)
Indian Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A/Stable (Assigned)
J&K Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Reaffirmed)
DBS Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Reaffirmed)
Dhanlaxmi Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A/Stable (Reaffirmed)
South Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.80	ACUITE A/Stable (Reaffirmed)
South Indian Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	13.20	ACUITE A/Stable (Assigned)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	501.00	ACUITE A/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research Limited:

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