Press Release

Lalchnd Jewellers Pvt Ltd (LJPL)

January 29, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facility	35.00	IVR BBB/Positive (IVR Triple B with Positive Outlook)
	Total	**35.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Lalchnd Jewellers Pvt Ltd (LJPL) derives comfort from experience of its promoters in jewellery retailing business and established operational track record of operations along with strong brand image. The rating also positively factors in its stable operating performance during FY17-FY19 with improvement in 9MFY20. However, the rating strengths are partially offset by its revenue concentration risk due to dependence on single showroom, intense competition in the operating spectrum, working capital intensive nature of operations leading to moderate leverage and its moderate debt coverage indicators. The outlook is positive based on expected improvement in its scale of operations coupled with improved profitability leading to improvement in liquidity in 2020.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure
- Improvement in operating cycle

Downward factor:

- Elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experience of the promoters in jewellery retailing business**

  Mr. Sanjay Hans, the founder of LJPL has been managing the entire retail jewellery business from inception in 1988, involving various facets of the business activities such as procurement, strategic planning etc. He is ably supported by his wife Mrs. Anvita Hans who is also involved in key decision making process for business.

- **Established operational track record of operations along with strong brand image**

LJPL has an operational track record of over three decades in the Bhubaneswar jewellery market and markets its product under the brand name of "Lalchnd", which has a strong brand recall in Bhubaneswar and in nearby Tier II and Tier III cities.

- **Stable operating performance during FY17-FY19 with improvement in 9MFY20**

The company has stable operating performance over the past three fiscals ended FY19. However, following an improvement in scale of operation of ~10% in FY18 the total operating income of the company remained almost stagnant in FY19. With marginal traction in total operating income during FY19, the operating profit level and EBITDA margin moderated marginally. EBITDA margin moderated from 4.95% in FY18 to 4.48% in FY19. However, driven by increase in non- operating income pertaining to recovery of making charges taken by suppliers of jewellery, the PAT level and PAT margin (from 1.55% in FY18 to 2.17% in FY19) improved in FY19. With increase in PAT level, GCA has also improved from Rs.5.07 crore in FY18 to Rs.7.10 crore in FY19. In 9MFY20, LJPL achieved total operating income of Rs.236.13 crore with EBITDA margin of 9.18% and PAT margin of 5.42%. The improvement in 9MFY20 is mainly backed by increase in gold prices during the year.

Key Rating Weaknesses

- **Moderate leverage and debt coverage indicators**

The capital structure of LJPL continued to remain moderate as indicated by debt equity ratio and overall gearing of 0.52x and 1.40x respectively as on March 31, 2019 as against 0.29x and 1.29x respectively as on March 31, 2018 on account of increase in long term debt and higher utilisation of working capital limit. The company availed a loan against property during FY19 for opening a showroom in its subsidiary company Lalchnd Gems and Jewellers Pvt Ltd, which the company has fully prepaid during H1FY20. Due to increase in total debt, interest coverage ratio moderated from 2.39x in FY18 to 1.92x in FY19. However, despite increase in Total debt, Total debt to GCA improved from 8.66x in FY18 to 7.81x in FY19 due to increase in cash accruals.

- **Revenue concentration risk**

LJPL operates through only one retail showroom in Bhubaneswar. Hence, LJPL is exposed to high concentration risk.

- **Presence in a highly competitive and fragmented G&J industry**

The G&J industry in India is characterized by the presence of a large number of organised and unorganised players. Jewellery retail is largely dominated by region-specific closely-held family managed entities. However, increasing disposable income, fast changing lifestyle pattern and mall culture in Tier II and Tier III locations as well as growing consciousness of certified jewellery in these locations is shifting demand from unorganised to organised players thereby improving the penetration level of organised market

- **Working capital intensive nature of operations**

Being a jewellery retailer, LJPL maintains significant inventory at its showroom so as to provide a wide range of design offerings to its customers, which results in higher inventory holding and elongated working capital cycle. LJPL's operating cycle remained high in FY19 at 76 days as against 69 days in FY18 primarily due to increase in inventories as on balance sheet date. However, the cash-and carry business model of jewellery retail helps in managing the high working intensity to an extent. The average Cash Credit utilisation is remained moderate at about 86.79% during the past 12 months ended on December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity: Adequate</u>

LJPL's liquidity position is marked by adequate liquidity characterized by sufficient cushion in accruals as the company has earned GCA of Rs.7.10 crore in FY19 vis-à-vis its repayment obligations of around Rs.1.20 crore. Further the company has fully prepaid one of its loan against property in H1FY20. The liquidity profile of the company is constrained due to its working capital intensive nature of operations with high amount of working capital locked in inventory, leading to high working capital intensity. However, the average monthly fund-based working capital limit utilisation for the past 12 months ended December 31, 2019 remained at ~87% indicating a moderate liquidity buffer.

About the Company

LJPL commenced operations as a small proprietorship firm, retailing gold, in Bhubaneswar in 1988. The firm was reconstituted as a private limited company in 1995. The company is currently managed by Mr Sanjay Hans, son of the founder, Mr Lalchnd Hans. Mr. Sanjay Hans joined the firm in the early 1990s and has about three decades of experience in the retail jewellery business. LJPL retails gold, diamonds, and third-party branded jewellery (such as Dia, Nakshatra, ARY), high-end watches (diamond-studded, gold-plated brands such as Rado and Citizen), and pens. It owns one of the biggest gold jewellery showrooms in Odisha.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	260.52	259.50
EBITDA	12.88	11.64
PAT	4.06	5.74
Total Debt	43.87	55.42
Tangible Net worth	33.92	39.67
EBITDA Margin (%)	4.95	4.48
PAT Margin (%)	1.55	2.17
Overall Gearing Ratio (x)	1.29	1.40

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CRISIL has moved the rating of LJPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 02, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	35.00	IVR BBB/ Positive Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term Facilities- Cash Credit	-	-	-	35.00	IVR BBB / Positive Outlook
Total				**35.00**	