



Press Release

Lalchnd Gem and Jeweller Private Limited

March 22, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Bank Facilities	15.00	IVR BBB+ (CE) /Stable (IVR Triple B Plus [Credit Enhancement] with Stable Outlook) *	Assigned
		15.00 (Rupees Fifteen crore only)		

**CE rating is backed by unconditional and irrevocable corporate guarantee from Lalchnd Jewellers Private Limited (LJPL)*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the above bank facilities of Lalchnd Gem and Jeweller Private Limited (LGJPL) derives strength from unconditional and irrevocable corporate guarantee extended by from Lalchnd Jewellers Private Limited (LJPL) to the bank facilities of LGJPL. **This corporate guarantee results in an enhancement in the rating of the said instrument to IVR BBB+ (CE) /Stable (IVR Triple B Plus [Credit Enhancement] with Stable Outlook) against the unsupported rating of IVR BBB/Stable (IVR Triple B with Stable Outlook).**

Further, the rating derives comfort from experience of the promoters in jewellery retailing business, established operational track record of operations along with strong brand image and low lease rental expense on account of owned retail outlets at group level. The rating also notes improvement in operating performance during FY20 and in 9MFY21, moderate leverage and moderate debt coverage indicators. However, these rating strengths are partially offset by revenue concentration risk, high working capital intensive nature of operations, susceptibility of margins to volatile gold prices and presence in a highly competitive and fragmented G&J industry.

Key Rating Sensitivities:

Upward Factor:



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- Growth in scale of operations with improvement in profitability on a sustained basis of guarantor and LGJPL
- Improvement in the capital structure LGJPL
- Improvement in operating cycle and liquidity position of LGJPL
- Improvement in the credit profile of the corporate guarantor

Downward factor:

- Moderation in the scale of operations of the company impacting its profitability on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing over 2.5x of LGJPL
- Elongation of operating cycle impacting the liquidity of LGJPL
- Any negative government regulations impacting the business
- Deterioration in the credit profile of the corporate guarantor

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 Lalchnd group 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

Lalchnd group 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. Besides, it uses various modes of promotion – newspapers advertisements, billboards & hoarding, digital catalogues to promote the brand. The company is associated with some of the renowned brands namely Blue Stone, Rado, Casio, Fossil.

Low lease rental expense on account of owned retail outlets at group level

Two showrooms operated by LGJPL are either on lease or owned by its group company. The retail store of LGJPL situated at Cuttack is also spread over four floors and it has been taken on long term lease rent basis for a period of twelve years. The newly opened (Sep 2019)



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Raghunathpur Store is owned by group entity (Lalchnd Resort Pvt Ltd) and LGJPL pays rent to the said entity. Both the showrooms are located at prime locations of the city. For the Cuttack Store, LGJPL paid the rent for total 20 days only for the months of April and May 2020 on account of the stores being closed due to the India lockdown situation.

Improvement in operating performance during FY20 and in 9MFY20

The total operating income of the company witnessed an erratic trend during the last three years during FY18 to FY20. However, the revenue has increased by around 57% in FY20 mainly on account of incremental revenue from the new store opened at Raghunathpur in Sep '19. The increase was mainly due to expansion of business operations coupled with impact of various promotional activities undertaken. Though TOI improved, EBITDA margins have declined from 7.39% in FY19 to 5.87% in FY20 as the company had spent higher amount on stocking gold during the year with anticipation that gold price will increase in future. Further, Covid pandemic scenario in the last month also impinge the profitability to an extent. PAT margin moved in line with EBITDA margins. In 9MFY21, LGJPL reported revenue of Rs.126.34 crore with EBITDA margin of 9.00% and interest coverage of 4.64x.

Moderate leverage and moderate debt coverage indicators

LGJPL has moderate capital structure with Debt Equity ratio of 1.50x as on March 31, 2020 (as compared to 1.96x as on March 31, 2019) on account of scheduled repayment of long-term loan and accretion of profit to reserves. However, overall gearing ratio of LGJPL deteriorated marginally from 1.96x as on March 31, 2019 to 2.06x as on March 31, 2020 due to higher utilisation of bank borrowings. Debt protection parameters marked by interest coverage ratio remained satisfactory at 2.75 in FY20 (2.67x in Fy19). However Total debt to GCA remains high due to higher debt at 6.84 years as per FY20.

Strong credit profile of Lalchnd Jewellers Private Limited

The holding company and provider of corporate guarantee Lalchnd Jewellers Private Limited has a strong credit profile marked by its healthy capital structure with satisfactory debt protection metrics.

Key Rating Weaknesses

Revenue concentration risk

LGJPL operates through only two retail showrooms in Bhubaneswar and is hence exposed to high concentration risk.



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High working capital intensive nature of operations

Being a jewellery retailer, LGJPL 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. LGJPL's operating cycle remained high in FY20 at 92 days as against 123 days in FY19. 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 76% during the past 12 months ended on February, 2021.

Susceptibility of margins to volatile gold prices

The major raw material for the group is gold. The group generally purchases the readymade jewellery from various vendors based on the designs selected by it. Apart from this, it also buys old gold from customers who come to exchange their jewellery and also have a tendency to stay invested in gold. Gold prices have exhibited sharp volatility depending upon the demand & supply scenario and geopolitical situations; hence, the fluctuation in the gold prices has an impact on the margins of players in gems & jewellery industry. However, the company follows the inventory replenishment method (i.e. booking the same quantity of gold as is sold during the day) for managing volatility associated with gold price.

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.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of Lalchnd Jewellers Private Limited, provider of unconditional and irrevocable corporate guarantee to the bank facilities of LGJPL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies



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Financial Ratios & Interpretation (Non-financial Sector)

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by sufficient cushion in expected accruals in the range of ~Rs.11.55-14.84 crore as compared to debt repayment obligation in the range of ~Rs.1.02-2.11 crore during FY21-23. Moreover, the company has no major near term capex plan, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~76% in the last 12 months ended in February 2021 is also indicating an adequate liquidity buffer.

About Lalchnd Gem and Jeweller Pvt Ltd

Lalchnd Gem & Jeweller Pvt Ltd (LGJPL) was incorporated in the year 2015 as a subsidiary of Lalchnd Jewellers Pvt Ltd (LJPL), which is owned by Mr. Sunjoy Hans and Mrs. Anvita Hans. LGJPL retails gold, diamond, silver jewellery, high-end watches, pens, and other items. LGJPL has got two retail outlets in the twin city of Cuttack and Bhubaneswar.

About Lalchnd Jewellers Pvt Ltd (Corporate Guarantor)

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 : LJPL (Corporate Guarantor)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	259.5	300.05
EBITDA	11.64	17.88
PAT	5.74	10.77
Total Debt	55.43	50.71
Tangible Net worth	39.67	50.44
EBITDA Margin (%)	4.48	5.96
PAT Margin (%)	2.17	3.55
Overall Gearing Ratio (x)	1.40	1.01



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**Classification as per Infomerics' standards.*

Financials : LGJPL (Standalone) For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	110.99	174.05
EBITDA	8.20	10.21
PAT	3.20	4.05
Total Debt	25.77	35.49
Tangible Net worth	13.18	17.23
EBITDA Margin (%)	7.39	5.87
PAT Margin (%)	2.88	2.33
Overall Gearing Ratio (x)	1.96	2.06

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	15.00	IVR BBB+ [CE]/ Stable Outlook*	-	-	-

**based on unconditional and irrevocable corporate guarantee from Lalchnd Jewellers Private Limited*

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:



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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	15.00	IVR BBB+ [CE]/ Stable Outlook*

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