



## Press Release

### Lala Kashi Nath Seth Jewellers Private Limited (LKNSJPL)

October 31, 2023

#### Rating

Facilities	Amount (Rs. crore)	Rating	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Fund Based Bank Facilities	33.66 (Reduced from 34.33)	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
<b>Total</b>	<b>33.66</b> <b>(Rupees Thirty-Three Crore and Sixty-Six lakh only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The affirmation of rating to the bank facilities of Lala Kashi Nath Seth Jewellers Private Limited (LKNSJPL) continues to draw comfort from its extensive experience of the promoter in the jewellery business and their established market position, as well as their Moderate profitability, moderate capital structure and financial risk profile. Additionally, their approach towards Mitigating Price Risk in a Volatile Gold, and Silver Market. However, the rating strengths are partially offset by Decline in scale of operation, exposure to fluctuations in gold prices, and regulatory risk as well as the presence of intense competition.

#### Key Rating Sensitivities

##### Upward Rating Factor

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis.
- Improvement in debt protection matrix and liquidity

##### Downward Rating Factor

- Decline in the scale of operations or weaker operating profitability.
- Elongation in operating cycle impacting the liquidity.

List of Key Rating Drivers with Detailed Description



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### **Key Rating Strengths**

#### **Experience of the promoter in the jewellery business**

The company was established in 1999, however, the business was initially started by Mr. Lala Kashinath Seth in the year 1864 in Shajahanpur, Uttar Pradesh. The company is promoted by Mr. Pramod Chandra Seth and his two sons Mr. Raghvendra Chandra Seth and Mr. Bharat Chandra Seth. The Promoters have had vast experience in this field as they have been in this business from many generations. The promoters' track record in the business mitigates the operational risk to an extent.

#### **Established market position.**

The company operates three jewellery showrooms, with two located in Kanpur and one in Agra, Uttar Pradesh. The company has a diversified customer base with exposure to jewellery manufacturers and retailers. The company is also into dealership of Bajaj auto limited 2-wheeler automobiles sales with two showrooms in Kanpur and Lucknow each. The strategic placement of the showrooms in prime locations ensures convenient access for the target customers.

#### **Moderate profitability**

In FY23(P), the company achieved an EBIDTA of INR 7.81 Crore, an increase from INR 5.44 Crore in FY22, and the EBITDA margin improved to 5.36% from 3.25% in FY22. This improvement in the EBITDA margin can be attributed to the better realization resulting from an increase in the prices of traded goods. Furthermore, the company recorded a PAT margin of 2.58%, amounting to INR 3.76 crore in FY23(P), as compared to 1.28% and INR 2.16 crore in FY22. The company is actively enhancing its bottom line by focusing on product categories with higher margins, ensuring long-term sustainability.

#### **Moderate capital Structure and financial risk profile**



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The Company's Overall gearing ratio improved to 1.16x on March 31, 2023, from 1.28x as on March 31, 2022, led by increase in total net worth. TOL/TNW improved to 2.13x as on March 31, 2023, against 2.27x as on March 31, 2022. The interest coverage ratio improved and stood at 3.63x in FY23(P) against a 2.67x decline led by an increase in operating profit and decline in interest cost. The operating cycle of LKNSJPL increased to 139 days in FY23(P) from 114 days in FY22 led by increase in average inventory days which increased to 170 days in FY23(P) from 125 days in FY22. Average creditors day increased to 76 days in FY23(P) from 56 days in FY22, while average collection period remained same at 45 days in FY23(P) and FY22.

### **Approach towards Mitigating Price Risk in a Volatile Gold and Silver Market**

To manage the daily price fluctuations in gold and silver, the company is aligning their purchases with the quantity of products sold, thereby mitigating the inherent price risk. In a volatile market where gold and silver prices can fluctuate significantly from one day to the next, this strategy reflects the company's adaptability to minimize potential financial exposure. By purchasing in line with their sales volume, the company is enhancing their ability to stabilize costs and protect their profitability. This approach will safeguard their financial health.

### **Key Rating Weaknesses**

#### **Decline in scale of Operation.**

The total operating income of the company registered a decline of 13.35% in FY23(P). The overall operating income in FY23 stood at INR.145.81 Crore. The decline in sales can be attributed to the strategic shift undertaken by the company. They have recognized certain segments of their sales that were yielding lower profits, prompting them to discontinue these less profitable areas. Instead, the company is redirecting its efforts towards high-margin products like gold and silver.

### **Intense competition in the highly fragmented jewellery industry**



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The domestic gems and jewellery industry is highly fragmented in nature and is characterized by intense competition. The company not only faces competition from unorganised players, but also from a few well-established organised players. Exposure to fluctuations in gold prices and regulatory risk - The jewellery retail industry has been witnessing increased regulatory intervention in the last few years which impacted the operating environment and consequently the performance of the Jewellers. Revenue growth and margins remain susceptible to fluctuations in gold prices, which in turn are impacted by regulatory requirements. Any adverse policy decision leading to unfavorable movement in gold prices could impact demand prospects and profitability.

### **Exposure to fluctuations in gold prices and regulatory risk**

The jewellery retail industry has been witnessing increased regulatory intervention in the last few years which impacted on the operating environment and consequently the performance of the Jewellers. Revenue growth and margins remain susceptible to fluctuations in gold prices, which in turn are impacted by regulatory requirements. Any adverse policy decision leading to unfavorable movement in gold prices could impact demand prospects and profitability.

**Analytical Approach:** Standalone

### **Applicable criteria:**

[Rating Methodology for Trading companies](#)

[Criteria of assigning Rating Outlook](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

### **Liquidity – Adequate**

LKNSJPL's liquidity appears to be adequate with current ratio of 1.44x as on March 31, 2023(P). Gross Cash Accruals (GCA) of the company stood at Rs.2.81 crore in FY22 and increased to Rs.4.36 crore in FY23(P). Cash and Bank balance stood at Rs.2.02 crore as on March 31, 2023. LKNSJPL has sufficient cash accruals as against the long-term debt repayment obligations. Its average fund based working capital utilization for the 12 months ended August 2023 stood around 64.11%. However, Operating Cycle has remained elongated to 139 days in FY23 when compared to 114 days in FY22.

### **About the Company**



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Incorporated in 1999, LKNSJPL is a Private limited company involved in the business of retail trading of Gold, Diamond, and Silver Jewellery. The business was started by Mr. Lala Kashinath Seth in the year 1864 in Shajahanpur, Uttar Pradesh. The company is mainly promoted by Mr. Pramod Chandra Seth and his two sons Mr. Raghvendra Chandra Seth and Mr. Bharat Chandra Seth. The company has its 3 Jewellery stores at Kanpur, Uttar Pradesh. The company also has dealership of Bajaj automobiles for selling its two-wheeler vehicles. The company has two showrooms in Kanpur and two showrooms in Lucknow for the Bajaj two-wheeler vehicles.

### Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	167.44	145.81
EBITDA	5.44	7.81
PAT	2.16	3.76
Total Debt	37.44	38.00
Tangible Net worth	29.15	32.87
<b>Ratios</b>		
EBITDA Margin (%)	3.25	5.36
PAT Margin (%)	1.28	2.58
Overall Gearing Ratio (x)	1.28	1.16

\*Classification as per Infomerics' standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23. (August 08, 2022)	Date(s) & Rating(s) assigned in 2022-23 (June 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (April 30, 2021)
1.	Fund Based Bank Facilities – Cash Credit	Long Term	32.00	IVR BBB- / Stable	IVR BBB- / Stable	IVR BB+; Issuer Not Cooperating	IVR BBB- / Stable
2.	Fund Based Bank Facilities – Term Loan (GECL 1)	Long Term	1.66	IVR BBB- / Stable	IVR BBB- / Stable	IVR BB+; Issuer Not Cooperating	IVR BBB- / Stable

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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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
Fund Based Bank Facilities – Cash Credit	-	-	Revolving	32.00	IVR BBB-/ Stable
Fund Based Bank Facilities – Term Loan (GECL 1)	-	-	October 2024	1.66	IVR BBB-/ Stable

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-LalaKashiNath-oct23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**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](http://www.infomerics.com).