

July 19, 2023

Lalithaa Jewellery Mart Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	701.0	959.0	[ICRA]A- (Stable); reaffirmed
Long-term Fund based – Unallocated	499.0	241.0	[ICRA]A- (Stable); reaffirmed
Total	1200.0	1200.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the improvement in Lalithaa Jewellery Mart Private Limited's (LJMPL) scale of operations and sustained strong market position, aided by its established brand name in the jewellery retail markets of Tamil Nadu, Andhra Pradesh and Telangana. The rating also continues to consider the promoter's extensive experience of over three decades in the industry. LJMPL's operating performance has witnessed a steady improvement in the recent fiscals. Its operational and financial performances are likely to remain healthy in the coming quarters, driven by its improving business diversification and favourable demand conditions. LJMPL's geographical diversification of revenues has also improved in the recent years as it generated 33% and 29% of its revenues from Tamil Nadu and Andhra Pradesh, respectively in FY2023. Karnataka and Telangana contributed 14% and 22% to the revenues, respectively.

LJMPL's capital structure has remained conservative, with limited dependence on external debt on the back of a steady growth in earnings in the recent fiscals. As per the provisional financials of FY2023, key capitalisation ratios including the gearing and total outside liabilities to the tangible net worth (TOL/TNW) have remained adequate at around 0.7 times and 2.2 times, respectively. Despite the operating margins of the company being impacted by higher advertisement expenses, the interest coverage ratio improved to 3.7 times in FY2023 from 3.3 times in FY2022. The company has recently availed enhancement of working capital limits by Rs. 150 crore, which is expected to support its liquidity. The limits are further likely to be enhanced. However, the rating remains constrained by the high working capital requirements in the business as the entity is required to maintain various kinds of jewellery at its different showrooms. The earnings of the entity also remain exposed to fluctuation in gold prices. The rating also remains constrained because of intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers' performance in the past.

The Stable outlook on the long-term rating reflects ICRA's expectations that LJMPL's operational and financial performances will continue to benefit from favourable demand conditions, its established market position, increasing focus on expansion in new markets and high share of studded jewellery in the revenue mix along with comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established market position in southern states, with a strong brand name of Lalithaa – LJMPL enjoys a strong retail presence and has a long track record in the jewellery market for more than three decades, mainly in Tamil Nadu and Andhra Pradesh. Vast experience of the promoters in the gold jewellery industry and the company's focus on providing ornament designs that suit specific tastes and preferences of the customers enabled LJMPL to establish its strong brand and have a loyal customer base. The same drove its revenue growth through repeat purchases across all key markets. Its strong brand equity is illustrated by a steady revenue growth despite entry of many large regional chains in the recent years.

Comfortable financial profile – LJMPL’s financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. The coverage metrics improved in FY2023 owing to healthy earnings. The interest cover increased to 3.7 times in the said fiscal despite high working capital requirements in the business (funded through earnings, working capital debt and advances from customers). The coverage indicators are likely to remain comfortable owing to expected steady earnings from operations over the medium term. Further, the financial profile is also supported by its adequate liquidity position and relatively limited dependence on external debt, reflected in the total outside liabilities to the inventory ratio of ~72% (adjusted for Ind AS 116 – leases).

Growth prospects in jewellery segment underpinned by large industry size and fragmented market share – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting organised players like LJMPL over the years. Further, its sizeable presence across major markets in Tamil Nadu and Telangana, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support the organised trade and provide better opportunities in the near term.

Credit challenges

Moderate operating profitability; earnings exposed to fluctuations in gold prices – The entity’s operating margins are expected to remain at moderate levels, constrained by low contribution from the studded jewellery, limited margins and lack of pricing flexibility owing to intense competition in key markets. Further, its earnings remain exposed to volatile gold prices, as seen in the past. A part of the price volatility risk is mitigated by LJMPL’s limited hedging and bargaining power to procure gold at competitive rates. LJMPL derives more than 80% of its revenues from the sale of gold jewellery.

Performance exposed to intense competition and regulatory risks in jewellery segment – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restriction on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold and imposition of excise duty are some of the regulations that have impacted business prospects in the past. LJMPL remains exposed to changes in regulations that may impact its business profile. Further, the jewellery retail business is highly fragmented and is exposed to intense competition from organised and unorganised players. This limits the pricing flexibility enjoyed by retailers to an extent.

Liquidity position: Adequate

LJMPL’s liquidity position is expected to remain adequate, supported by steady earnings from operations and adequate unutilised working capital limits. The average utilisation of its fund-based limits over the last 12 months ending May 2023 stood at around ~88% of the sanctioned limits. The entity does not have any major term debt outstanding and the proposed enhancement of its working capital limits would further improve the liquidity. Any large fund outflow towards contingent liabilities could constrain its liquidity and would be a key monitorable.

Rating sensitivities

Positive factors – LJMPL’s rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to a rating upgrade include an interest coverage ratio above 4.0 times on a sustained basis.

Negative factors – The rating may be downgraded in case of sustained pressure on the company’s operating performance or a deterioration in its working capital cycle, adversely impacting the debt protection metrics and the liquidity position of the entity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery - Retail Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Lalithaa Jewellery was started in 1983. In 1985, the entity was converted into a private limited company. In 1999, Mr. Kiran Kumar took over Lalithaa Jewellery. At that time, they had only one store in Chennai. Today, Lalithaa Jewellery runs 50 showrooms across four South Indian States and one Union Territory. It mainly caters to middle class and lower middle-class customers. Hence margins are on the lower side. The promoter's long presence in their target market and aggressive pricing policy enabled them to create brand loyalty in their target markets.

The company was among the first to introduce hallmarking of jewels to establish the authenticity of gold used and the first to waive off making charges on jewels. LJMPL has an established track record in the gems and jewellery sector in southern India and brand presence owing to it operating in the industry since 1985. As on date, LJMPL has 50 stores in South India – 18 stores in Tamil Nadu, 19 stores in Andhra Pradesh, 7 stores in Karnataka, 5 stores in Telangana and 1 store in Puducherry.

Key financial indicators

Standalone	FY2022(Audited)	FY2023 (Provisional)
Operating income	8,191.9	13,380.9
PAT	189.3	235.4
OPBDIT/OI	5.10%	4.05%
PAT/OI	2.31%	1.76%
Total outside liabilities/Tangible net worth (times)	2.0	2.2
Total debt/OPBDIT (times)	2.4	1.7
Interest coverage (times)	3.3	3.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				July 19, 2023	Nov 30, 2022	-	-	
1	Cash Credit	Long term	959.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2	Unallocated	Long term	241.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund based – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	959.00	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	241.00	[ICRA]A-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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