November 30, 2022

Lalithaa Jewellery Mart Private Limited: [ICRA]A-(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	701.00	[ICRA]A-(Stable); assigned
Long-term Fund-based – Unallocated	499.00	[ICRA]A-(Stable); assigned
Total	**1200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in Lalithaa Jewellery Mart Private Limited's (LJMPL) large scale of operations and strong market position, aided by its established brand name in the jewellery retail markets of Tamil Nadu, Andhra Pradesh and Telangana. The rating also considers 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% of its revenues from Andhra Pradesh and Tamil Nadu each in FY2022. Karnataka and Telangana contributed 13% and 18% 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. Key capitalisation ratios including the gearing and total outside liabilities to the tangible net worth (TOL/TNW) have remained adequate at around 0.9 times and 2.0 times, respectively in FY2022. Further, key metrics including the interest coverage and DSCR remained at comfortable levels of ~3.3 times and 2.0 times, respectively in FY2022.

The rating is, however, 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. Further, the entity has not been able to enhance its working capital limits, which has put additional pressure on liquidity. The earnings of the entity also remain exposed to fluctuation in gold prices. The rating also remains constrained on account 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 the 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 coupled with 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 FY2022 owing to healthy earnings.

The interest cover increased to ~3.3 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 inventory ratio of ~69%.

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 and 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 85% of its revenues from 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 October 2022 stood at around ~93% of the sanctioned limits. The entity does not have any 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 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 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 Mart Private Limited (LJMPL) is a Chennai-based jewellery chain founded in 1985 by Late Kandaswamy, with its operations spread across South India. The current Chairman & Managing Director, Dr. Kiran Kumar Jain, took over the company in 1999. The company mainly deals with gold jewellery, targeting the middle-class group. The company also deals with silver, diamond and platinum products. As on date, LJMPL runs 44 showrooms across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Puducherry.

Key financial indicators (audited)

LJMPL	FY2021	FY2022
Operating income	7,245.7	8,191.9
PAT	164.8	189.3
OPBDIT/OI	5.81%	5.10%
PAT/OI	2.28%	2.31%
Total outside liabilities/Tangible net worth (times)	2.4	2.0
Total debt/OPBDIT (times)	2.5	2.4
Interest coverage (times)	3.1	3.3

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	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					November 30, 2022	-	-	-
1	**Fund-based Cash Credit**	Long term	701	--	**[ICRA]A- (Stable)**	-	-	-
2	**Unallocated**	Long term	499	--	**[ICRA]A- (Stable)**			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based cash credit	Simple
Long term – 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	701.00	[ICRA]A-(Stable)
NA	**Unallocated**	NA	NA	NA	499.00	[ICRA]A-(Stable)

Source: LJMPL

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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