

April 9, 2025

## Lalithaa Jewellery Mart Limited: Rating reaffirmed, removed from Rating Watch with Negative Implications and Stable outlook assigned; rated amount enhanced

### Summary of rating action

Instrument*	Previous rated amount (Rs. Crore)	Current rated amount (Rs. Crore)	Rating action
Long-term fund based – Cash credit	972.0	1,055.5	[ICRA]A- (Stable); reaffirmed, removed from Rating Watch with Negative Implications and Stable outlook assigned
Long-term fund based – Term loan	-	27.00	[ICRA]A- (Stable); reaffirmed, removed from Rating Watch with Negative Implications and Stable outlook assigned; assigned for enhanced amount
Long-term – Unallocated limits	228.0	144.5	[ICRA]A- (Stable); reaffirmed, removed from Rating Watch with Negative Implications and Stable outlook assigned
<b>Total</b>	<b>1,200.0</b>	<b>1,227.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

In January 2024, ICRA placed the rating outstanding on the bank lines of Lalithaa Jewellery Mart Limited (LJML) on 'watch with negative implications' following the sharp increase in contingent liabilities to Rs. 1,055.7 crore in FY2023 (from Rs.161.3 crore in FY2022) on the tax demand orders passed by the Income Tax Department for the Assessment Years 2015-16 to 2021-22. The rating action considers the recent developments around receipt of orders from the Commissioner of Income Tax-Appeals (CIT Appeals) and further appeal by the entity with the Income Tax Appellate Tribunal (ITAT). ICRA understands from the management and appeal documents that the tax liability is reduced to ~Rs. 435 crore which is further appealed against. While the watch is removed, ICRA will continue to monitor the developments and take appropriate action for any adverse impact on the company's financial profile.

LJML's credit profile remains supported by its large scale of operations, healthy market position, established brand name in the jewellery retail markets of Tamil Nadu, Andhra Pradesh and Telangana and the promoter's extensive experience in the gold jewellery retail industry. LJML's performance was supported by 17% revenue growth in the last five years (CAGR ending FY2024). In 10M FY2025, the entity recorded revenues of Rs. 13,907 crore (flat YoY growth), supported by a sharp increase in gold prices, even as volumes fell amid weak demand sentiments. However, volumes will be supported by the store expansions undertaken in recent past. LJML's geographical diversification has marginally improved in the recent years with it generating 38% and 28% of its revenues from Tamil Nadu and Andhra Pradesh, respectively, in H1 FY2025 compared to 43% and 27%, respectively, in FY2021. Besides, Karnataka and Telangana contributed to 14% and 17% of revenues, respectively, in H1 FY2025. LJML mobilises customer advances through jewellery purchase schemes, funding 45-47% of its inventory and aid in attracting new customers. With improvement in LJML's operating margins, supported by high realisations and cost controls, the interest coverage ratio improved to 5.1 times in H1 FY2025 compared to 4.8 times in FY2024.

The rating, however, remains constrained by the inherent working capital intensity in the business, as the entity is required to maintain varieties of jewellery across showrooms. However, the entity's ability to maintain a healthy inventory turnover and mobilise customer advances through jewellery purchase schemes relatively limit its external working capital requirement. The

rating also considers the intense competition in a fragmented industry structure and regulatory risks, which had impacted the retailers' performance in the past. Akin to other players, LJML's earnings remain exposed to fluctuations in gold prices. ICRA notes that LJML has invested Rs. 103.5 crore to acquire a 100% stake in Asita Jewellery Manufacturing Private Limited and Centigrade Apparels Private Limited in August 2024, and bonus issue done in the ratio of 20:1 to its existing shareholders in June 2024.

The Stable outlook on the long-term rating reflects ICRA's expectations that LJML's operational and financial performances will continue to benefit from favourable demand conditions, its established market position, increasing focus on expansion in new markets. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

## Key rating drivers and their description

### Credit strengths

**Established market position in southern states with a strong brand name of Lalithaa** – LJML has a strong retail presence and long track record in the jewellery market for more than two 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 LJML 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 evident from a steady revenue growth despite entry of many large regional chains in the recent years.

**Comfortable financial profile** – LJML's financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. Despite high working capital requirements in the business (funded through earnings, working capital debt and advances from customers), LJML's coverage metrics improved in FY2024 and H1 FY2025. Its interest cover stood at 4.8 times in FY2024 and improved to 5.1 times in H1 FY2025, supported by increase in profitability. The coverage indicators are likely to remain comfortable, owing to expected steady earnings from operations over the medium term. Further, the financial profile is supported by its adequate liquidity position and relatively limited dependence on external debt, reflected in the total outside liabilities to the inventory ratio of ~71% (adjusted for Ind AS 116 – leases). The 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 2.3 times, respectively, as on September 30, 2024.

**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 LJML over the years. Further, its healthy presence across major markets in Tamil Nadu and Telangana, and regulatory changes such as mandatory hallmarking of gold jewellery are likely to 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 LJML's limited hedging and bargaining power to procure gold at competitive rates. LJML derives ~75% of its revenues from the sale of gold jewellery, ~20% from bullion sales and the balance from silverware, diamonds and other segments.

**Performance exposed to intense competition and regulatory risks in jewellery segment** – The domestic jewellery retail sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. The restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit, imposition of GST and demonetisation are some regulatory developments that have impacted demand and supply in the past. The company remains exposed to regulatory changes, which may impact its business performance. Additionally, the sector is highly fragmented and is exposed to intense competition from large organised and unorganised players, which limits the pricing flexibility of retailers to an extent.

**High contingent liabilities** – After the income tax raid, which took place at various locations of LJML, including its corporate office and various retail stores between March 4, 2021 and March 7, 2021, tax demand orders have been passed by the Income Tax Department from the Assessment Years 2015-16 to 2021-22. The recognition of contingent liability relating to these orders resulted in a significant rise in their contingent liability to Rs. 1,086.1 crore as on March 31, 2024, from Rs. 161.3 crore as on March 31, 2022. ICRA notes the recent developments around receipt of orders from the Commissioner of Income Tax-Appeals (CIT Appeals) and further appeal by the entity with the Income Tax Appellate Tribunal (ITAT). ICRA understands from the management and appeal documents that the tax liability is reduced to ~Rs. 435 crore which is further appealed against. While the watch is removed, ICRA will continue to monitor the developments and take appropriate action for any adverse impact on the company’s financial profile.

### Liquidity position: Adequate

LJML’s liquidity position is expected to remain adequate, supported by steady earnings from operations and unutilised working capital limits. The average utilisation of its fund-based limits during the last 12-month period ending December 2024, stood at ~95% of the sanctioned limits of Rs. 974.5 crore. The entity does not have any major term debt outstanding, and the proposed enhancement of its working capital limits is likely to support its liquidity. Any large fund outflow towards contingent liabilities could constrain its liquidity and would be a key monitorable.

### Rating sensitivities

**Positive factors** – LJML's rating may be upgraded, if it registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to a rating upgrade include a Total debt/OPBDITA less than 1.6 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.

### Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Jewellery - Retail</a>
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 as a jewellery retailer. In 1985, the entity was converted into a private limited company. In 1999, Mr. Kiran Kumar took over Lalithaa Jewellery. At that time, the company had only one store in Chennai. At present, Lalithaa Jewellery runs 60+ showrooms across four South Indian states and one Union Territory. In FY2024, the company was converted into a public limited company and in June 2024, the entity has made a bonus issue in the ratio of 20:1 to its existing shareholders.

### Key financial indicators (audited)

LJML (Standalone)	FY2023	FY2024	H1 FY2025*
Operating income	13,305.4	16,786.4	8,639.8
PAT	232.9	358.3	222.9
OPBDIT/OI	3.8%	4.1%	4.8%
PAT/OI	1.8%	2.1%	2.6%
Total outside liabilities/Tangible net worth (times)	2.2	2.1	2.3
Total debt/OPBDIT (times)	1.9	1.8	1.6
Interest coverage (times)	4.0	4.8	5.1

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Current (FY2026)				Chronology of rating history for the past 3 years							
				FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Cash credit	Long-term	1,055.5	Apr 09, 2025	[ICRA]A- (Stable)	Apr 23, 2024	[ICA]A- @	Jul 19, 2023	[ICRA]A- (Stable)	Nov 30, 2022	[ICRA]A- (Stable)	
							Jan 10, 2024	[ICA]A- @	-	-	
Term loan	Long-term	27.00	Apr 09, 2025	[ICRA]A- (Stable)	-	-	-	-	-	-	
Unallocated limits	Long-term	144.5	Apr 09, 2025	[ICRA]A- (Stable)	Apr 23, 2024	[ICA]A- @	Jul 19, 2023	[ICRA]A- (Stable)	Nov 30, 2022	[ICRA]A- (Stable)	
							Jan 10, 2024	[ICA]A- @	-	-	

@: Rating Watch with Negative Implications

### Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund based – Cash Credit	Simple
Long-term fund based – Term Loan	Simple
Long-term – Unallocated Limits	Not Applicable

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	Long-term fund based – Cash Credit	NA	NA	NA	1,055.5	[ICRA]A- (Stable)
NA	Long-term fund based – Term Loan	FY2025	NA	FY2035	27.00	[ICRA]A- (Stable)
NA	Long-term – Unallocated Limits	NA	NA	NA	144.5	[ICRA]A- (Stable)

Source: Company

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

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