Livingstones Jewellery Private Limited

February 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Long term	12.50	12.50	[ICRA]B (Stable); Reaffirmed
Fund based- Unallocated	2.00	2.00	[ICRA]B (Stable); Reaffirmed
Total	**14.50**	**14.50**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B) to the Rs. 12.50 crore long-term fund-based and Rs. 2.00 crore long-term unallocated facilities of Livingstone Jewellery Private Limited. The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation takes into account the long-standing experience of the promoters along with operating track record of the company of more than three decades in the gems and jewellery business which has resulted in established customer and supplier base, and the presence of the Livingstones group across value chain making it an integrated player in the gems and jewellery segment.

However, the rating is constrained by the company's weak financial position as reflected by small scale of operations, modest profitability, weak debt coverage indicators and high working capital intensity of operations due to high inventory -holding period and receivable levels. The rating also considers the vulnerability of LJPL's profitability to fluctuations in raw material prices, and exposure to high competitive intensity in the jewellery industry which limits the pricing power.

Outlook: Stable

ICRA believes Livingstones Jewellery Private Limited will continue to benefit from the extensive experience of the promoters in the jewellery business, its established customer and supplier base, and the presence of the group across the value chain. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long standing experience of promoters and established track record of the company in the gems and jewellery industry – LJPL was incorporated in 1989 for manufacturing and selling of diamond studded gold jewellery. It is promoted by Mr. Sandip Kothari who has an extensive experience of close to three decades in the gems and jewellery business. The company makes various rings, earrings, pendants, bracelets and necklaces which are manufactured using polished diamonds, precious and other semi-precious stones set in gold.

Presence of group across gems and jewellery value chain; established relationship with customers and suppliers - The Livingstone group has presence across gems and jewellery value chain. The group carries out processing of raw diamonds to produce polished diamonds through Livingstones and manufacturing of diamond studded jewellery through Livingstone Jewellery Private Limited. LJPL has an established customer base, mainly in export markets of Belgium, Hongkong and USA while it also has sourcing arrangement for supply of cut and polished diamonds with its group company, Livingstones and a Belgium based supplier.

Credit challenges

Weak financial profile characterised by small scale, modest profitability and weak debt coverage indicators – LJPL is a small player in the fragmented gems and jewellery industry. After witnessing stagnant revenues for four years, the company reported ~12% y-o-y revenue growth in FY2017; however, at absolute level the revenues continued to remain small at Rs. 30.88 crore. The operating profitability of the company remains modest due to limited value addition and has fluctuated in the last five fiscals because of volatility in gold prices. The operating margins of the company increased to 6.10% in FY2017 from 3.28% in FY2016 due to lower employee costs but the same have again declined to 5.08% in 9M FY2018 due to higher raw material and overhead costs. The company's return indicators as well as debt coverage indicators have remained weak owing to low profitability as reflected by RoCE of 9.71%, interest coverage of 1.59 times and NCA/Total Debt of 7% in FY2017 as compared to RoCE of 5.06%, interest coverage of 0.71 times and NCA/Total debt of 1% in FY2016. For 9M FY2018, the company reported interest coverage of 1.50 times and NCA/TD of 7%.

High working capital intensity resulting from high inventory and high receivables which impacts liquidity – The working capital intensity of the company has remained on a higher side over the past few years and stood at 63% in FY2017 as compared to 71% in FY2016. The same is because of high receivables and high inventory levels. The company offers a credit period of 90-120 days to its customers and makes payments within 30 days to its suppliers. The inventory levels generally remain on a higher side given the high variety of jewellery designs manufactured by the company, and to fulfil any sizeable orders on immediate basis. For 9M FY2018, the working capital intensity stood at 62%.

Intense competition in the gems and jewellery industry in India - The company faces stiff competition from large organised and well-established chains as well as small unorganised players supplying gold and diamond studded jewellery, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Vulnerability of profitability to adverse fluctuation in raw material prices – The operating profit margins of the company are largely affected by the gold and diamond price fluctuations which in turn affect the sales realisations of the finished goods. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering the limited ability to pass on the price hike owing to highly competitive nature of the industry.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Livingstones Jewellery Private Limited (LJPL) was incorporated in 1989 by Mr. Sandip Kothari and Mr. Pankaj Kothari. The company is engaged in the manufacturing and selling of diamond studded gold jewellery. It has a retail showroom at Opera House in Mumbai. LJPL, part of The Livingstones group, is a closely held entity with 100% ownership of the promoter family who are actively involved in its day-to-day operations. The Livingstones group has more than three decades of experience in the Gems and Jewellery business and has over the years grown into a vertically integrated business establishment ranging from supply of cut and polished diamonds and manufacturing of diamond studded gold jewellery. The manufacture of gold jewelry is carried out by its group concern namely, Livingstones Jewellery Private Limited.

In FY2017, the company reported a net profit of Rs. 0.63 crore on an operating income of Rs. 30.88 crore, as compared to a net profit of Rs. 0.06 crore on an operating income of Rs. 27.50 crore in the previous year. In 9M FY2018, the company has reported operating income of Rs 20.67 crore and profit after tax Rs 0.46 crore.

Key financial indicators

	FY 2016 (Audited)	FY 2017 (Audited)	9M FY2018 (Provisional)
Operating Income (Rs. crore)	27.50	30.88	20.67
PAT (Rs. crore)	0.06	0.63	0.46
OPBDIT/ OI (%)	3.28%	6.10%	5.08%
RoCE (%)	5.06%	9.71%	8.40%
Total Debt/ TNW (times)	1.31	1.14	0.88
Total Debt/ OPBDIT (times)	13.86	6.13	6.65
Interest coverage (times)	0.71	1.59	1.50
NWC/ OI (%)	71%	63%	62%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating February 2018	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 July 2015	Date & Rating in FY2015 October 2014
1	Fund based	Long Term	12.50	NA	[ICRA]B; (Stable)	[ICRA]B	[ICRA]B	[ICRA]B
2	Unallocated	Long Term	2.00	NA	[ICRA]B; (Stable)	[ICRA]B	[ICRA]B	[ICRA]B

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – EPC/PSC/CC	NA	NA	NA	12.50	[ICRA]B; (Stable)
NA	Unallocated	NA	NA	NA	2.00	[ICRA]B; (Stable)

Source: Livingstone Jewellery Private Limited

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