

Lala Kashi Nath Seth Jewellers Private Limited

February 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB- (CWD) (Triple B Minus) (Under Credit watch with Developing Implications) and removed from Under Credit watch with Developing Implications; Stable outlook assigned and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has removed the ratings from under credit watch with developing implications, reaffirmed and withdrawn the outstanding ratings of "CARE BBB-; Stable" (Triple B Minus; Outlook: Stable) assigned to the bank facilities of Lala Kashi Nath Seth Jewellers Private Limited with immediate effect. The above action has been taken at the request of Lala Kashi Nath Seth Jewellers Private Limited and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

The rating assigned to the bank facilities of Lala Kashi Nath Seth Jewellers Private Limited (LKPL) continue to derive strength from the long-standing experience of the promoters, reputed brand image of "Lala Kashi Nath Jewellers", stable business operations, moderate financial risk profile as reflected by comfortable gearing and interest coverage ratios and stable industry prospects. The rating is, however, constrained by LKPL's presence in the highly fragmented and competitive Gems & Jewellery (G&J) industry, vulnerability of the profitability margins to the volatile gold prices and working capital intensive nature of operations.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with good brand presence in Kanpur City

LKPL, part of the Lala Kashi Nath group, has been in the gems and jewellery industry since 1999 and has an established brand image under the name of "Lala Kashinath Jewellers". The group is one of the leading family-run retail jewellery businesses in Uttar Pradesh. LKPL, established over 20 years ago, is managed by the Mr. Ragnavendra Chandra Seth, who has an extensive experience of more than 30 years in the business. He is actively involved in the routine operations of the company and is ably supported by his brother Bharat Chandra Seth, who has also been in the business for over 3 decades. Mr. Bharat Chandra Seth looks after overall management and administration of the company. The group is operational in Kanpur with established 4 showrooms in the city with total area of approximately 9000 sq.ft.

Established track record of operations with diversified range of product offerings

LKPL purchases the ornaments from wholesale markets in India with whom it has a long established relationship according to the latest market trends and customer preferences. Despite intense competition, LKPL has been able to increase its share on account of its established presence in Kanpur. The product portfolio includes light weight ornaments, antiques, traditional, wedding jewels, pearl, precious stones, bangles, chains, bracelets, rings, ear-rings and nose-studs. The company, at times, also outsources the manufacturing of certain ornaments with certain design specifications to the third parties, while the small scale work of refurbishment, modifications in size etc., of the ornaments is carried out in the workshops of LKPL only.

Moderate financial risk profile

During FY20, the total operating income of the company grew marginally by ~4% to Rs.214.76 crore (PY: Rs.206.51 crore) in FY20. The PBILDT margin also remained stable at 2.93% during FY20 as compared to 2.95% witnessed during FY19. However, the PAT margin of the company declined to 1.36% (PY: 2.48%) in FY20 primarily on account of non-operating income of Rs.3.08 crore accrued in FY19 due to profit on sale of land with LKPL which resulted in higher PAT margin in FY19. Further, the debt coverage protection metrics remained moderate as reflected by the PBILDT interest coverage of 2.92x (PY: 2.52x) and total debt/GCA of 5.69x (PY: 4.86x) during FY20. The overall gearing of the company improved to 0.75x (PY: 1.22x) as on March 31, 2020 primarily on account of lower working capital borrowings as on balance sheet date and accretion of profits to net-worth. The company does not have any long term debt and mainly uses working capital borrowing to fund its inventory.

Stable industry prospects

The Gems and Jewellery (G&J) sector plays a significant role in the Indian economy, contributing around 7 per cent of the country's GDP and 15 per cent to India's total merchandise exports. The Gems and Jewellery industry is an important sector

with a high contribution to India's merchandise exports and employment generation. The margins of the retail players are expected to see improvement over medium term with availability of gold metal loans and increase in share of higher margins diamond and precious stone studded jewellery. The organized retailers are also expected to see some benefit from the implementation of GST and compulsory hallmarking of gold jewellery. The overall domestic gems & jewellery demand would see a growth of 6% - 7% in volume terms over a medium term.

Key Rating Weaknesses

Working capital intensive nature of operations

The working capital cycle of the company remained elongated due to high inventory holding requirement which is inherent to jewellery retail operations. The company has to maintain inventory of wide range of designs for different ornaments for the customers, due to which the inventory days remained high at 108 days (PY: 113 days) during FY20. However, the company's operating cycle improved to 60 days (PY: 69 days) during FY20 primarily on account of increase in creditor days. With the working capital intensive operations and volatile gold prices, it is imperative for the company to effectively manage its working capital.

Susceptibility of its profitability margins due to volatile gold prices

Gold prices have exhibited sharp volatility depending upon the demand & supply scenario and volatility in the foreign currency exchange rates. The supply of the gold is also regulated by Government of India (GOI) and Reserve Bank of India (RBI) in order to control current account deficit. LKPL has hedging policy in place in which it purchases same amount of gold and diamond jewellery same day as of the sale to the customers. This reduces the risk of price volatility to an extent though it leaves the unhedged risk of unsold inventory with the jewellers having to bear cost of carry as well.

Presence in a highly competitive and fragmented G&J industry

The Gems & Jewellery industry in India is characterized by the presence of a large number of organized and unorganized players. The increasing penetration of the organized players, who offer greater variety in terms of product-mix and jewellery design; along with customer's changing lifestyle, increasing urbanization, increasing disposable income, growing trend towards online buying and strategic marketing by the jewellers is envisaged to increase the share of organized jewellery retail segment going ahead. Furthermore, Tier-II and Tier-III cities are expected to be the major growth drivers for the domestic gold jewellery industry. The share of the national and regional players is expected to increase and the organized retail players are expected to maintain their margins with the help of change in sales mix.

Analytical Approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios - Non-Financial Sector](#)

[CARE's methodology for organized retail companies](#)

[Rating Methodology - Cut & Polished Diamond Industry](#)

[Liquidity analysis of non-financial sector entities](#)

About the Company

Incorporated in 1999, Lala Kashi Nath Seth Jewellers Private Ltd is a famous jeweller of Kanpur. The directors, Mr Bharat Seth and his brother, Mr Ragvendra Seth, manage the business with experience of more than 30 years in the business. The company sells jewellery in its four showrooms at Kanpur. The company is dealing in purchase and sale of wide range of jewellery & accessories for men, women & kids. Their brands include Bluestone, Aujinja & Emerald and having various products that includes light weight ornaments, antiques, traditional, wedding jewels, pearl, precious stones, bangles, chains, bracelets, rings, ear-rings and nose-studs.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	206.51	214.76
PBILDT	6.10	6.30
PAT	5.12	2.91
Overall gearing (times)	1.22	0.75
Interest coverage (times)	2.52	2.92

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB-(CWD) (16-Mar-20) 2)CARE BBB-; Stable (22-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/ facilities: Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – 022-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Sachin Mathur

Contact no.- 011- 4533 3206

Email ID- sachin.mathur@careratings.com

Relationship Contact

Ms. Swati Agrawal

Contact no. :+91-11-4533 3200

Email ID: swati.agrawal@careratings.com

About CARE Ratings:

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