Lala Kashinath Seth Jewellers Private Limited

March 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Fund Based	30.00	**CARE BBB- (Triple B Minus) (Credit Watch with Developing Implications)**	Placed on credit watch with developing implications
Total Facilities	**30.00 (Rs.Thirty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Lala Kashinath Seth Jewellers Private Limited (LKPL) have been placed on credit watch with developing implications on account of uncertainty with respect to the availability of its banking lines as it avails its entire working capital facilities from Yes Bank Limited (YBL), which is under a 30 days moratorium being imposed by Reserve Bank of India (RBI). CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities of 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.

Rating sensitivities

Positive Sensitivities:

- Ability of the company to increase its scale of its operations by 25-30% from current levels on a sustained basis while maintaining its comfortable leverage.
- Ability of the company to enhance its overall profitability from the current levels amidst raw material price volatility and competitive scenario.

Negative Sensitivities:

- Any increase in the inventory holding period of more than 150 days leading to elongation in the operating cycle on a sustained basis.
- Any sizeable capex undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1.50x on a sustained basis.

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. During FY19, the gold, diamond and silver jewellery, accounted for 24%, 74%

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

and 1.5% respectively of the total operating income as compared to contribution of 29%, 66% and 5% respectively during FY18.

Moderate financial risk profile

During FY19, LKPL reported stable total operating income at Rs. 206.51 cr (PY: Rs. 205.94 cr) on account of the subdued demand of gold ornaments and diamond studded ornaments during FY19. The PBILDT margin also remained stable at 2.95% during FY19 as compared to 2.94% witnessed during FY18. The improvement in the PAT margin of the company to 2.48% during FY19 vis-à-vis 0.92% registered in FY18 is attributed to the non-operating income of Rs. 3.08 cr accrued in FY19 due to profit on sale of land with LKPL. During FY20, the demand for the gold and diamond jewellery has improved with the company accruing total sales of Rs. 188.19 cr during 10MFY20 (11MFY19: Rs. 171 cr) with the PBILDT margin of 2.99%. Owing to the improvement in profitability during FY19, the interest coverage improved to 2.52x during FY19 as against 2.26x during FY18 and the total debt to GCA stood at 4.86x as on March 31, 2019.

In FY19, the capital structure of LKPL remained moderately leveraged with overall gearing of 1.22 times as on March 31, 2019 which improved from 2.08 times as on March 31, 2018 on account of prepayment of short term loan availed from Capital First and accretion of profit to reserves. The company does not have any long term debt and mainly uses working capital borrowing to fund its inventory. On account of the efficient working capital management, the average working capital utilization remained moderate at 55.18% at a maximum level and 38.51% at an average level for the twelve months ending January 2020.

Adequate Liquidity

The liquidity profile of the company is adequate with current ratio of 1.39x in FY19 (FY18: 1.30x) and cash and bank balances of Rs. 10.89 cr as on March 31, 2019. The company does not have any scheduled repayments. The overall gearing ratio of the company stood moderate at 1.22x as on March 31, 2019. Being a jewellery retailer, it is critical for LKPL to provide a wide range of designs to its customers. This result in significant inventory levels leading to high working capital intensity reflected in average inventory of 113 days (PY: 98 days) for FY19. However, the company is able to avail longer credit periods from its suppliers leading to stable operating cycle of 69 days (PY: 69 days) during FY19. The average fund based working capital utilization of the company remained modest at 55.18% at a maximum level and 38.51% at an average level for the twelve months ending January 2020. However, the entire working capital facilities of the company are currently availed from YBL. In the wake of the RBI superseding the Board of Directors of YBL and imposing a moratorium of 30 days w.e.f. March 5, 2020, LKPL is in the process of transferring its exposure from YBL. However, this may impact the liquidity profile of the company in the near term and thus the ratings have been placed on credit watch with developing implications. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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 from January 2021. 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 remain high at 113 days (PY: 98 days) during FY19. However, the company's operating cycle remained at 69 days during FY19, which is similar to FY18. 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

[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]

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, Aufinja & 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.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	205.94	206.51
PBILDT	6.05	6.10
PAT	1.89	5.12
Overall gearing (times)	2.08	1.22
Interest coverage (times)	2.26	2.52

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	30.00	CARE BBB- (Under Credit watch with Developing Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB-; Stable (22-Apr-19)	-	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. CC limits	The margin applicable is 25% on stock and book debts of up to 90 days. The limits are secured by: a. Exclusive charge on current and movable fixed assets of the borrower b. Exclusive charge on the residential property situated at Kanpur owned by Raghvendra Chandra Seth and Bharat Chandra Seth c. Exclusive charge on commercial land and building situated a Shahjahanpur with minimum cover of 0.75x d. Unconditional and irrevocable personal guarantee of the directors
B. Non-financial covenants	
1. CC limits	The sub limit of the cash credit facility includes working capital demand loan of Rs. 30 cr with the tenor of 3 months.

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

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Mr Gaurav Dixit
Group Head Contact no: 011 – 4533 3235
Group Head Email ID: gaurav.dixit@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no. : 011 – 4533 3237
Email ID: swati.agarwal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**