



Press Release

Laxmi Jewellery Export Pvt Ltd

February 09, 2021

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long Term/ Short Term Bank Facilities	55.00	IVR BBB-; Stable/ IVR A3 (IVR Triple B Minus; Stable/ IVR Single A Three)	Assigned
Total	55.00 (Fifty-five crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Laxmi Jewellery Export Pvt Ltd (LJEPL) derives strength from the extensive experience of its promoters in the jewellery business, established relationship with reputed and well-known customers, strong financial risk profile marked by strong debt protection metrics and continuous infusion of funds by the promoters leading to comfortable capital structure with prudent risk mitigation measures. Further, the rating also notes its strong liquidity marked by large free cash and cash equivalents coupled with prudent working capital management. However, these rating strengths remain constrained by its moderate financial performance with thin profitability, exposure to price volatility susceptible to regulatory changes and global phenomenon, presence in highly fragmented industry and exposure to intense competition from organised and unorganised players.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with consistent improve in operating profit margin leading to improvement in cash accruals on sustained basis
- Sustenance of the capital structure and improvement in the debt protection metrics marked by improvement in interest coverage to over 3x

Downward factor:

- Deterioration in scale of operation coupled with deterioration in profitability on a sustained basis and/or impairment in liquidity position



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- Withdrawal of subordinated unsecured loans of Rs.61.16 crore and/or deterioration in the capital structure and/or moderation in the debt protection metrics
- Any regulatory changes impacting the business risk profile of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the Jewellery Business

LJEPL is promoted by Mr. Bharat Y Mehta and Mr. Vipul Y Mehta having an experience of close to four decades in the jewellery business and are actively involved in the strategic decision of the company. The wide experience of the promoters in the gems and jewellery industry helps the company to understand the market requirements, procure material and design the products accordingly.

Established relationship with reputed and well-known customers

The company caters the gold and diamond jewellery requirement for reputed brands like Tanishq, Joyalukkas and Malabar Gold. LJEPL offer their customers a wide variety of jewellery from across India in order to cater to regional tastes. Long-term relationship with these reputed players indicates its efficiency.

Strong liquidity marked by large free cash and cash equivalents coupled with prudent working capital management

Gems and jewellery industry consist of high price, large volume and low margin products which makes a sizeable business capital intensive and working capital intensive. The company has managed its working capital requirements prudently and implemented an effective receivables management system. Receivables were range bound from 40 to 50 days in the past three fiscals with an operating cycle under 70 days. The working capital requirement of the company is mainly funded through creditors based on its established relationships and promoter's funds in the form of unsecured loan (as and when required). Further, the company has large free investment in liquid mutual funds to support its liquidity. The company's average of the maximum working capital utilization of the availed bank limits is only ~5%, thus reflecting healthy liquidity.



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Strong financial risk profile marked by strong debt protection metrics and continuous infusion of funds by the promoters leading to comfortable capital structure

The capital structure of the company witnessed gradual improvement as on the past three account closing dates marked by improvement in the overall gearing ratio from 1.46x as on March 31, 2018 to 0.05x as on March 31, 2020 driven by steady accretion of profit to net worth, sustained low use of bank borrowings coupled with retiring of Gold Loan facility and infusion of subordinated unsecured loans. Consequently, Total indebtedness as reflected by TOL/ANW was comfortable at 0.44x as on March 31, 2020 (1.46x as on March 31, 2019). The adjusted tangible net worth (ANW) stood healthy at of Rs.131.47 crore (considering subordinated unsecured loans aggregating to Rs.61.16 crore as on March 31, 2020 as quasi equity). Further, LJEPL has negligible utilisation in its working capital limits. Total Debt/GCA was comfortable at 0.62x as on March 31, 2020 (13.10x as on March 31, 2019). Other debt protections parameters were also healthy and stable, marked by interest coverage ratio of 2.12x in FY20 (1.61x in FY19) and Total debt/EBITDA at 0.45x in FY20 (5.38x in FY19). Infomerics expects that the financial risk profile of the company will continue to remain strong in the near term.

Prudent risk mitigation measures

LJEPL creates of positions of future in Gold to safeguard the risk of appreciation in Gold Price. In order to take protection against appreciation/depreciation in USD payable against INR, LJEPL creates position of forward contract.

Key Rating Weaknesses

Moderate financial performance with thin profitability

The total operating income of the company has shown an erratic trend over the past three years ending FY20, since the underlying value of the product depends on the value of the gems and precious metals, which is prone to price fluctuation and erratic consumption pattern. The total operating income declined from Rs.740.58 crore in FY19 to Rs.652.83 crore in FY20. The operating profitability of the company remained thin and the EBITDA margin moderated marginally to 2.25% in FY20 due to volatility in raw material prices whereas the PAT margin has shown a mild increasing trend from 0.09% in FY19 to 1.50% in FY20, driven by reduction in interest expenses upon retiring of Gold loan facility in FY20.



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Infomerics expects though the financial performance of the company will continue to remain steady the scale of operations may dampen further in FY21. During 9MFY21, the company has achieved a revenue of ~Rs.305 crore.

Price volatility susceptible to regulatory changes and global phenomenon

Gold & diamond are important commodities traded in the international market, so trading in gold, diamond and studded jewellery is highly influenced by several government policies and regulations, which changes from time to time. Since gold is considered as the most near to liquid investment and can be readily sold in over the counter and traded on multiple exchanges the prices volatile in nature.

Highly fragmented and exposed to intense competition from organised and unorganised players

The jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated G&J manufacturers leading to highly competitive industry. The company faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry impacts the company's profit margins.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Strong

The liquidity of the company is strong marked by its large free investment in liquid mutual funds aggregating to Rs.38.95 crore (as on March 31,2020) and Rs.0.30 crore (as on December 31, 2020), in term deposit and cash and bank balance aggregating to Rs.6.60 crore (as on March 31,2020) and Rs.8.60 crore (as on December 31, 2020). Furthermore, the company's average of the maximum working capital utilization of the availed bank limits is only ~5% for the month ending November 2020, thus reflecting healthy liquidity. Moreover, the company has healthy gross cash accruals with no long-term debt obligations and adequate gearing headroom on the back of its comfortable capital structure.



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About the Company

Incorporated in 1992, Laxmi Jewellery Exports Private Limited (LJEPL) is promoted by Mr. Bharat Y Mehta, Mr. Vipul Y Mehta, Mr. Divyesh Y Mehta and Mr. Sagar Y Mehta. It is engaged in manufacturing and wholesale trading of jewellery (including antique/ jatdar jewellery). LJEPL is has a showroom at CG Road, Ahmedabad, and also caters to the requirements of brand houses such as Tanishq, Joyalukkas, Malabar Gold etc. by being a well-known and trusted wholesaler of gold jewellery manufacturer, supplier and retailer.

Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	740.58	652.83
EBIDTA	19.30	14.68
PAT	11.13	13.33
Total Debt	103.76	6.55
Tangible Networth	60.48	70.31
Adjusted Net worth	97.92	131.47
EBIDTA Margin (%)	2.61	2.25
PAT Margin (%)	0.93	1.50
Overall Gearing Ratio (x)	1.06	0.05

*as per Infomerics standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term/ Short Term Bank Facilities	LT/ST	55.00	IVR BBB- ; Stable/ IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Chandrakant Bagri Tel: (033) 46022266 Email: chandrakant.bagri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term / Short Term Bank Facilities*	-	-	-	55.00	IVR BBB-; Stable/ IVR A3

*Fund/Non Fund Based Limits – Sub limit of Cash Credit							
Name of the Bank	EPC	WCDL	SLC	SID	BG	GML (D)	GML (E)
Yes Bank	25	45	10	30	20	41	32

*EPC – Export Packaging Credit ; WCDL – Working Capital Demand Loan ; SLC – Standby Line of Credit ; SID – Sales Invoice Discounting ; BG – Bank Guarantee ; GML (D/E) - Gold Metal Loan (Domestic / Export)