

## Laxmi Goldorna House Limited

December 05, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating*	Remark
Long-term Bank Facilities	10	<b>CARE BB; Stable</b> <b>(Double B; Outlook: Stable)</b>	Reaffirmed
<b>Total</b>	<b>10</b> <b>(Rs. Ten crore only)</b>		

*Details of instruments/facilities in Annexure -1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Laxmi Goldorna House Limited (LGO) continues to remain constrained on account of its moderate scale of operation, low profitability, weak debt coverage indicators and moderate liquidity position with working capital-intensive nature of its operations. The rating also continues to remain constrained on account of its presence in the highly fragmented and competitive gems and jewellery industry coupled with risk associated with fluctuation in gold prices.

The rating is, however, derives strength from the experienced and resourceful promoters having diversified business interest. The rating also factored in improvement in capital structure as on March 31, 2018 (Provisional).

The ability of LGO to increase the scale of operations with improvement in profitability in light of fluctuating gold prices, improvement in debt coverage indicators and efficient working capital management are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### ***Moderate scale of operation, low profitability and weak debt coverage indicators***

The scale of operation marked by total operating income (TOI) of LGO improved during FY18 (Prov., refers to period April 01 to March 31) by 33% as a result of increased demand of gold ornaments during the year; but stood moderate at Rs.69.78 crore as against Rs.52.43 crore during FY17.

Further, PBILDT margin has improved marginally by 45 bps but stood low at 3.17% as against 2.72% during FY17. Consequently, the PAT margin has also improved by 62 bps but stood low at 1.73% during FY18 as against 1.11% during FY17. The overall profitability remains low on account of its trading nature of operations.

The debt coverage indicators deteriorated and remain weak marked by an interest coverage ratio of 2.24 times in FY18(Prov) as against 3.88 times during FY17 mainly on account of higher interest and finance cost incurred during the year as a result of increase in total long term debt during the year to fund business requirements. Further, the Total debt to GCA ratio also deteriorated and stood high at 13.16x as on March 31, 2018 (Prov)as against 8.96x as on March 31, 2017.

##### ***Moderate liquidity position with working capital-intensive nature of its operations***

The liquidity position remained moderate marked by current ratio of 2.53 times as on March 31, 2018(Prov) as against 2.06 times as on March 31, 2017. The operation remains working capital intensive marked by elongated operating cycle at 88 days during FY18 (Prov) and high ratio of net working capital to total capital employed at 68% as on March 31, 2018(Prov). Further the average utilization of its working capital limit also stood high at 90% for past one year ended October 2018. The cash flow from operating activity also stood negative during FY18(Prov) at Rs.15.13 crore and liquidity in form cash and bank balance stood low at Rs.0.24crore as on March 31, 2018(Prov).

##### ***Presence in highly fragmented and competitive nature of industry with presence of many unorganized players***

LGO has its presence in gold jewellery retail industry, which is highly fragmented in nature with presence of numerous independent small-scale enterprises in unorganized sector and some of the large players in organized sector, leading to high level of competition. This is owing to low entry barriers due to minimal capital required, easy availability of raw materials (gold) and easy access to clients and suppliers.

##### ***Risk associated with fluctuation in gold prices***

Fluctuation in the gold prices impact on the margins of players in gems & jewellery industry. The changes in the gold prices could impact the profitability to the extent of LGO's inventory holding which the company has to maintain on a regular basis.

### Key Rating Strengths

#### ***Experienced and resourceful promoters having diversified business interest***

Mr Jayeshbhai Shah and Mrs Rupalben Shah are the key promoters of LGO, both the promoters possess more two decades of experience in jewellery industry. The promoters are also managing various entities (belong to 'Laxmi Group') engaged into diversified business i.e. wholesale and retail of gold jewellery, trading and real estate development.

#### **Improvement in capital structure**

The capital structure of LGO has improved and stood comfortable marked by an overall gearing ratio of 0.72 times as on March 31, 2018 as against 1.22 times as on March 31, 2017. The improvement was mainly on account of increase in the tangible net worth base as on balance sheet date as a result of significant capital infusion by promoters during the year.

**Analytical Approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's Rating Methodology - Wholesale Trading](#)

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

#### **About the Company**

Ahmedabad (Gujarat) based LGO is a part of 'Laxmi Group' incorporated by Shah Family in the year 2010 as a private limited company. During July 2017 the constitution of LGO has been changed to closely held limited company. LGO is engaged in the business of wholesale and retail trade of gold jewellery and gold and operates from its only showroom located at Manekchowk (Ahmedabad). Mr. Jayeshbhai Shah and Mrs. Rupalben Shah are the key promoter directors of the company. The promoters are also associated with the companies namely Sona hi Sona jewellers (Gujarat) Limited (rated CARE BB-;Stable), M/s Laxmi Builcon, M/s Laxmi Infraspace, M/s Laxmi Infrastructure, M/s Laxmi Developers, Laxmi Jewelers and M/s Jeerawala Association.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (Prov.)</b>
Total operating income	52.43	69.78
PBILD	1.43	2.21
PAT	0.58	1.20
Overall gearing (times)	1.22	0.72
Interest coverage (times)	3.88	2.24

A: Audited, Prov.: Provisional

During 7MFY19 (Prov.), LGO achieved TOI of Rs.37.65crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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	-	-	-	10.00	CARE BB; Stable

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	1)CARE BB; Stable (12-Sep-17) 2)CARE BB; Stable (02-May-17)	1)CARE BB (25-Jul-16)	1)CARE BB (30-Jul-15)

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