# PC Jeweller Limited

**January 05, 2021**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Fixed Deposit | 300.00 | CARE D (FD); ISSUER NOT COOPERATING* [Single D (Fixed Deposit) ISSUER NOT COOPERATING*] | Rating moved to ISSUER NOT COOPERATING category |
| **Total Medium Term Instruments** | **300.00 (Rs. Three Hundred Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

PC Jeweller Limited has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on PC Jeweller Limited's instrument will now be denoted as **CARE D (FD); ISSUER NOT COOPERATING***.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

The ratings take into account continued stretched liquidity position and deterioration in the financial flexibility of the company which has led to overutilization in its working capital limits for more than 30 days. The rating further factors in deterioration in scale of operations of the company in FY20 (refers to the period from April 01 to March 31), and H1FY21 (refers to the period from April 01 to September 30). Further, the rating continues to remain constrained by the regional concentration of revenue, working capital intensive nature of operations and highly regulated & competitive nature of the Gems & Jewellery (G&J) industry.

The rating, however, continues to derive strength from experienced promoters of the company having long track record of operations in the G&J industry.

**Detailed description of the key rating drivers**

*At the time of last rating on December 10, 2019 the following were the rating strengths and weaknesses (updated for the information available from stock exchange):*

**Key Rating Weaknesses**

**Stretched liquidity position**

Liquidity of the company continues to remain stressed as reflected by overutilization of the fund based limits for more than 30 days. Average fund based and non -fund based limits of the company have remained almost fully utilized and average of month end utilization for the past 12 months ending May, 2019 stood at 91.13%. Further, significant erosion in its market capitalization since the beginning 2018 had a weakening effect on PCJ's financial flexibility and its liquidity. The market capitalization of the company reduced significantly from Rs.12,606 crore as on March 31, 2018 to Rs.3,256 crore as on March 31, 2019 and further to Rs.989.48 crore as on December 09, 2019. The same stands at Rs.1,015.34 crore as on December 31, 2020. There is also a decline in cash and bank Balance of the company from Rs.318.88 crore as on March 31, 2019 to Rs.226.91 crore as on March 31, 2020 and further to Rs.126.51 crore as on September 30, 2020, reflecting moderation in the liquidity position of the company.

**Deterioration in scale of operations**

The financial risk profile of the company is characterized by de-growth in the scale of operations. PCJ's total revenue has declined from Rs.8,456.20 crore in FY19 to Rs.5,010.18 crore in FY20, on account of Indian economy registering its lowest GDP growth of the last one decade during FY20 and rise in gold prices during July-August (2019) which led to muted consumer demand and sales even during festive season vis-à-vis the previous year. The company reported a total operating income of Rs.449.35 crore during H1FY21 due to subdued demand scenario on account of covid-19.

**Working capital intensive nature of business**

The operations of PCJ are working capital intensive. Being in the retail business, the company has to maintain high levels of inventory, both in the form of raw gold and also as stock at each of its outlets of various designs to cater the taste and requirement of various customers. The inventory level of the company stood at Rs.5,360.93 crore as on September 30, 2020 as against inventory of Rs.5,258.54 crore as on March 31, 2020. Increase in inventory as on Sep 30, 2020 is on account of festive season. Trade receivables of the company have reduced from Rs.1,780.55 crore as on March 31, 2020 to Rs.1,653.38 crore as on September 30, 2020. The operating cycle of the company stood at 453 days for FY20 (PY: 196 days).

**Geographical concentration of revenue**

PCJ has been a regional player so far, with Delhi-NCR being the major strong-hold of the company through its well established brand-name among the local customers. The company is Delhi based and the maximum concentration of its stores is in Delhi NCR & rest of Northern States like Rajasthan, UP, Haryana & Bihar. Also all the sales to its franchisees are from its HO, so almost 92% of the company's sales are from North. Such concentration of operations exposes the company to any adverse developments related to competition, as well as economic, demographic and other changes in that region, which may adversely affect its business prospects and financial conditions and results of operations.

**Highly regulated industry**

G&J sector has been one of most regulated, given the fact gold alone makes India's second largest import bill only after petroleum. Thereby, to reduce Current Account Deficit (CAD), RBI announces various regulations on domestic consumption of gold. The measures include raising of import duty on gold purchases to 10% (from 4%) and 15% (from 10%) on gold jewellery, introducing 80%-20% import-export rule and prohibiting any credit purchase of gold. Albeit, RBI (towards the end of FY15) relaxed many of the restriction easing the domestic supply of gold on the back of the CAD remaining below 2% (as on Feb 28, 2015) supported by suppressed brent crude prices. Further, it has allowed direct gold import to authorized dealers and star trading houses on DP (Document on Payment) basis as per entitlement with no end use restriction. However, towards the end of FY16, there were a slew of measures introduced by the government to curb circulation of black money and ensure greater transparency in the system which included:

- Mandatory hallmarking of gold
- PAN on all transactions exceeding Rs.2 lacs and above per transaction

The sector continues to be vulnerable to regulatory risk and any adverse movement of the CAD or consequent measures taken by the government/RBI would pose the risk to the gold demand and viability of the companies in this industry.

**Key Rating Strengths**

**Experienced promoter coupled with long track record of operations**

Mr. Balram Garg, promoter and director of PCJ has an experience of more than two decades in the manufacturing and retail sales of hand crafted gold jewellery. Prior to joining PCJ, he had worked for his family owned jewellery firm.

PCJ commenced its operations in year 2005 with one showroom located at Karol Bagh (Delhi). Till year 2007 company was mainly engaged in wholesale and retail sales of gold and diamond studded jewellery in domestic market after which company started its export operations with manufacturing unit located at Noida Special Economic Zone (NSEZ). PCJ has setup a strong manufacturing set-up through backward integration comprising of a dedicated in-house designing and manufacturing unit. PCJ's wide range of product offerings caters to diverse customer segments, from the value market to high-end customized jewellery. Its product profile includes traditional, contemporary and combination designs across jewellery lines, usages and price points. During FY19, the company launched 5 sub-brands within its overall jewellery segment to cater a wider range of customers. The sub-brands were namely- Mirosa, Inayat, Azwa, Love Gold, Swarna Dharohar.

**Analytical approach:** Standalone

**Applicable Criteria**

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating methodology- Manufacturing companies
Financial ratios- Non-financial sector
CARE's methodology for organized retail companies
Rating Methodology- Cut and polished diamonds sector

Liquidity analysis of non-financial sector entities

**About the Company**

PCJ is one of the leading players in the G&J segment in India. PCJ, with its headquarters in Delhi, is engaged in the manufacture, retail and export of gold, diamond and studded Jewellery. PCJ commenced its operations in year 2005 with one showroom located at Karol Bagh (Delhi). Till year 2007 company was mainly engaged in wholesale and retail sales of gold and diamond studded Jewellery in domestic market after which company started its export operations with manufacturing unit located at Noida Special Economic Zone (NSEZ). The company exports gold and diamond Jewellery on a wholesale basis to international distributers in Dubai. The share of domestic sales and export sales in the revenue from operations on standalone basis is Rs.4281 crores (87%) and Rs.658 crores (13%) respectively in FY20. Export business of the company is B2B and company exports handmade Jewellery to international distributors in Dubai.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 8,456.20 | 5,010.18 |
| PBILDT | 385.16 | 533.20 |
| PAT | -2.81 | 78.50 |
| Overall gearing (times) | 0.86^ | 0.61* |
| Interest coverage (times) | 1.13 | 1.48 |

*A: Audited*
*0.61*: excluding LC Acceptances and gold deposit*
*0.86^: including LC Acceptances and gold deposit*

**Status of non-cooperation with previous CRA:** NA
**Any other information:** NA

**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 |
|---|---|---|---|---|---|
| Fixed Deposit | - | - | - | 300.00^ | CARE D (FD); ISSUER NOT COOPERATING* |

**Issuer did not cooperate; Based on best available information*
*^The tenor of the fixed deposit scheme ranges between 6 to 20 months which is on-going with no fixed maturity date*

**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. | Fixed Deposit | LT | 300.00 | CARE D (FD); ISSUER NOT COOPERATING* | - | 1)CARE D (FD) (10-Dec-19)<br>2)CARE B (FD); Stable (26-Nov-19)<br>3)CARE BB+ (FD); Negative (22-Aug-19)<br>4)CARE BB+ (FD) (Under Credit watch with Developing Implications) (10-Jun-19)<br>5)CARE BBB (FD) (Under Credit watch with Developing Implications) (21-May-19) | 1)CARE BBB (FD); Negative (02-Jan-19)<br>2)CARE BBB (FD); Negative (24-Jul-18)<br>3)CARE A (FD); Negative (09-Jul-18)<br>4)CARE A+ (FD) (Under Credit watch with Negative Implications) (30-Apr-18) | 1)CARE A+ (FD); Stable (10-Aug-17) |

**Issuer did not cooperate; Based on best available information*

**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. | Fixed Deposit | Simple |

***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.*

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**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.