

## P.N. Gadgil and Sons Limited

October 07, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	125.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	247.00	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Reaffirmed
<b>Total Bank Facilities</b>	<b>372.00</b> <b>(₹ Three Hundred Seventy-Two Crore Only)</b>		
Fixed Deposit	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
<b>Total Medium Term Instruments</b>	<b>50.00</b> <b>(₹ Fifty Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of the ratings to the fixed deposit programme and the bank facilities of P.N. Gadgil and Sons Limited (PNGSL) continues to derive strength from its company's long track record and its experienced promoters and management team within the retail jewellery sector. The same, together with its association with the well-established legacy of the 'P.N. Gadgil' brand in Maharashtra, dating back to the year 1832, enables the company to garner a strong brand recall in the region. The rating also factors significant growth in the total operating income in FY22 (Audited; refers to the period April 1 to March 31), adequate liquidity position due to its prudent inventory management practices coupled with its free cash and bank balances, despite working capital intensive nature of business. The ratings take a note of the company's venture into trading of bullion, a high volume and low margin segment.

The rating strengths are, however, tapered due to moderate profitability along with its vulnerability to fluctuations in gold prices, partly mitigated through various hedging practices. Further, majority of the revenue derived from sales of gold ornaments is concentrated to the Maharashtra state. The leverage position as indicated by the Total Outside Liabilities/Tangible Network (TOL/TNW), though improved with accretion of profits, was moderate considering the potential liability by way of the company's exposure to the various schemes and customer advances. Furthermore, the players operating in the Gems and Jewellery industry are subject to intense competition from large organized and local unorganized players and an inherent regulatory risk which can impact the operating performance of the company

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in its operational performance through scaling up of jewellery business segment from other regions and states
- Sustained improvement in the TOL/TNW of below 0.75x
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 10x and total debt to gross cash accruals lower than 1.5x

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any un-envisaged aggressive store expansion or enhancements leading to sustained deterioration in the TOL/TNW of higher than 2.50x
- Sustained deterioration in debt coverage indicators with a PBILDT interest coverage of lower than 4x and total debt to gross cash accruals above 6x

### Detailed description of the key rating drivers

#### Key rating strengths

**Experienced promoters and management team coupled with a strong brand recall in Pune (Maharashtra):** The promoters of the company belong to the Gadgil family who entered the gold jewellery business way back in 1832 in Sangli, Maharashtra, titled 'Purushottam Narayan Gadgil Jewellers'. During 1958, the family ventured in the Pune market and commenced its first establishment under the alias 'P. N. Gadgil & Co.' Furthermore, during 2012, the P.N. Gadgil & Co. was split to form P.N. Gadgil & Sons. Given the track record, the PNG brand today commands a leading position in the gold jewellery market in the Maharashtra state for more than five decades. The strong brand recall has enabled the company to establish its

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

presence across Maharashtra, Karnataka & Gujarat and garner a loyal customer base, despite the increasing competitive scenario in the market. PNGSL is spearheaded by Mr Govind Gadgil, fifth-generation entrepreneur, in the capacity of Chairman and Managing Director, with over four decades of experience in the industry. The promoters are supported by a well-qualified and experienced management team led by Mr Amit Modak in the capacity of Whole-time Director and CEO.

**Steady growth in scale of operations:** The total operating income (TOI) of the company registered a compounded annual growth rate (CAGR) of 65% over the past three years ended FY22. The company's scale of operations was higher at Rs. 5649.43 crore in FY22 as against Rs.2159.76 crore in FY21. TOI was seen higher due to introduction of bullion trading, which is a high-volume segment. The sale of jewellery segment reported a growth of 17% in FY22. Further, the PBILDT margin of the company declined in FY22 to 3.21% as compared with 10.25% during the previous year. This was mainly due to contribution of bullion trading, which earns low margin coupled with increase in other operating expenses which was largely by advertisement expenses, and sales promotion during the year. PAT margin also moved in tandem and the same stood at 1.82% in FY22. Furthermore, during Q1FY23 (Audited; refers to a period from April 1 to June 30), the company has achieved TOI of Rs. 2614.93 crore and PBILDT of Rs. 63.94 crore as against Rs.295.75 crore and Rs. 16.38 crore respectively in Q1FY22. The company's plan for the bullion trading segment will be a rating monitorable.

**Steady expansion across new geographies:** Post its demerger in April 2012, the company initially operated two shops in Pune and Nashik. The company has added many stores during the last decade, with aggressive expansion during FY17 and FY18. As on March 31, 2022, the number of stores stood at 29, of which 25 stores are leased and 4 are owned. The company has been constantly increasing its presence in tier 2 and tier 3 cities by adding new stores thus diversifying geographically within and outside Maharashtra. Currently, Maharashtra state accounts for majority of sales. The company, in the near term intends to increase its store count by three, however, without reliance on any external debt. Furthermore, the company plans to open branches in the next two years ended in FY24. The expected funding of the same will be done through accruals.

**Prudent working capital management:** The company, being a jewellery retailer, maintains a wide variety of designs of finished goods inventory at its showrooms for display and sales, in addition to the bullion/semi-processed gold (WIP) with the karigars. This normally leads to high inventory holding and working capital intensity. PNGSL meets its requirements through low-cost sources of funds like customer advances, that is, various schemes, internal accruals, and unsecured loans from the promoters and Gold Metal Loans.

**Hedging mechanisms and inventory price risk reserve:** The company follows the inventory replenishment model, as prevalent in the retail jewellery business. The group has prudent inventory management policy with moderate inventory holding of 100-115 days with optimum inventory of gold. Hedging practices protect profitability from fluctuations in gold prices. The gold on lease and Gold Metal Loan (GML), which has an in-built hedging mechanism protect against gold price volatility. Furthermore, 20% - 30% of the inventory constitutes exchange sales. The company has also created an inventory price risk reserve, which is invested in liquid funds/fixed deposits. The same can be utilised in times when fluctuation in commodity prices is abnormal and might affect the normal working capital position of the company.

### **Key rating weaknesses**

**Moderate capital structure and debt coverage metrics:** The total debt profile of the company consists of term loans, working capital borrowings, unsecured loans, lease commitments, fixed deposits, GML and advances from the customers (under various schemes), due to which adjusted debt levels are elevated. The healthy accretion of profits to net-worth over the years resulted in an improvement in the capital structure with overall gearing ratio at 1.48x as on March 31, 2022 as compared to 1.69x as on March 31, 2021. Furthermore, TOL/TNW though improved remains moderate at 1.75x as on March 31, 2022. The debt coverage indicators though deteriorated on account of lower profit levels and accruals generated during the year, however the same continues to remain moderate at PBILDT interest coverage ratio total debt/GCA stood at 5.24x and 5.93x as at the end of FY22. As on June 30, 2022, the overall gearing stood at 1.61x and interest coverage stood at 9.01x. The ability of the company to further improve its capital structure and maintain its debt protection matrices would be the key rating monitorable.

**Intense competition from organized and unorganized players along with competition within PNG brand:** The retail gold jewellery industry is a fragmented industry with a high level of competition from both the organized and largely unorganized sector catering to different customer segment. Low entry barriers limit the pricing flexibility leading to minimum scope for margin expansion. Additionally, competition within the entities operating under the 'PNG' brand also exists.

**Susceptibility to regulatory risks in the jewellery industry:** The sector has been one of the most regulated, given the fact gold makes India's second-largest import bill only after petroleum. To reduce Current Account Deficit (CAD) various measures are announced on domestic consumption of gold. The measures include raising of import duty on gold purchases on gold jewellery, various measures to curb circulation of black money and ensure greater transparency in the system. Furthermore, with compulsory hallmarking from June 2021, the inventory holding period is expected to increase by approximately 4 – 5 days which in turn will mean higher inventory cost. However, hallmarking of jewellery is expected to benefit the organised players like PNG. 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.

### Liquidity: Adequate

Liquidity is adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations. The company manages its working capital efficiently using the cash and carry model, customer advances under various schemes, Unsecured loans from promoters and working capital facilities from the bank. Average utilization of external borrowings for 12 months ended June, 2022, remained at approximately 75%. The liquidity position of the company as on June 30, 2022, was adequate as indicated by a free cash and liquid investment balance of ~Rs.135 crore. Further, healthy generation of cash accruals and moderate term debt repayments would enable the company to maintain its liquidity cushion.

### Analytical approach - Standalone

#### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating Methodology - Organized Retail Companies](#)

[Wholesale Trading](#)

### About the company

P. N. Gadgil & Sons Limited (PNG Sons) (erstwhile M/s P. N. Gadgil & Sons, partnership firm) is engaged in the retail sale of gold/silver/diamond-studded jewellery and trading of bullion in Maharashtra. The company operates majority of its stores across the cities of Maharashtra and one store each in Gujrat and Karnataka. The company ventured into sale of gold bullion in FY22 to expand its business operations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (A)
Total operating income	2,162.93	5,656.96	2,614.93
PBILDT	221.71	181.75	63.94
PAT	135.69	102.75	39.21
Overall gearing (times)	1.69	1.48	1.61
Interest coverage (times)	6.90	5.24	9.01

A: Audited

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	50.00	CARE A+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	125.00	CARE A+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	247.00	CARE A+; Stable / CARE A1

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fixed Deposit	LT	50.00	CARE A+; Stable	1)CARE A+; Stable (22-Jun-22)	1)CARE A+ (FD); Stable (03-Sep-21)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	247.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (03-Sep-21)	-	-
3	Fund-based - LT-Working Capital Limits	LT	125.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Sep-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-** Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

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

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### About us:

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