

## PNG Brothers

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	92.65 (Reduced from 99.64)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	60.00	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of PNG Brothers (PNG) continue to derive strength from established brand image, partners' long-standing experience in the retail jewellery business, growing scale of operations, and adequate liquidity. However, rating strengths are tapered due to the firm's moderate capital structure and debt coverage indicators, and vulnerability of margins to fluctuations in gold and silver prices. Ratings also consider working capital intensive nature of operations, presence in regulated and competitive industry and risk of capital withdrawal due to the partnership nature of the concern.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant improvement in the scale of operations and increased profit before interest, lease rentals, depreciation and taxation (PBILDT) margins, resulting in total debt (TD)/PBILDT below 3x and interest coverage ratio over 2.5x on sustained basis.

#### Negative factors

- Increase in inventory holding period to beyond 300 days resulting in deterioration in liquidity position.
- Un-envisaged incremental debt-funded capital expenditure, leading to deterioration of overall gearing beyond 2.50x and TD/PBILDT beyond 6x on sustained basis.
- Significant withdrawal of partners' capital from the business, impacting liquidity.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that PNG will continue to benefit from extensively experienced management, and strong brand recall in Pune.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced partners and established brand image in Pune

PNG (erstwhile known as PNG Jewellery and Gems) is managed by Padmini Gadgil and her two sons, Akshay Gadgil and Rohan Gadgil, who are the fifth-generation entrepreneurs from the Gadgil family. The firm was a part of P. N. Gadgil Co, (renamed P.N. Gadgil Jewellers Private Limited [PNGPL]) and was demerged in 1998. The firm sells its products under the brand name 'PNG', which is one of the reputed retail jewellery brands in Maharashtra, having established since 1832 by Ganesh Narayan Gadgil and Purushottam Narayan Gadgil (first-generation promoters). The brand has a strong recall in Pune market, given its presence for over five decades.

##### Growing scale of operations

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

PNG's total operating income (TOI) increased marginally to ₹455 crore in FY24 (refers to April 01 to March 31) from ₹453.55 crore in FY23 and from ₹287.88 crore in FY22. Volumes for gold and diamond jewellery declined y-o-y by ~16% and ~13% respectively in FY24, which was offset by higher sales realisation by ~19% and 7% respectively.

PNG reported revenue of ₹379.48 crore in 8MFY25 (Unaudited, refers to April 01 to November 30) against ₹316.79 crore in 8MFY24. This growth was despite closure of Bund Garden store in May 2024. CARE Ratings expects scale of operations to witness steady growth in the medium term.

## **Key weaknesses**

### **Moderate capital structure and debt coverage indicators**

The firm's debt profile as on March 31, 2024, comprised term loan, guaranteed emergency credit line (GECL) loans, working capital loans, and unsecured loans from the customers in the form of fixed deposits. The entity's capital structure continues to remain moderate with overall gearing at 2.80x (including 'offer' schemes) as on March 31, 2024, compared to 2.70x (including 'offer' schemes) as on March 31, 2023. Interest coverage ratio remained moderate at 1.48x in FY24 against 1.53x in FY23. Furthermore, TD/ PBILDT stood at 5.90x in FY24 (6.23x in FY23). CARE Ratings expects financial risk profile to improve in the medium term in the absence of debt-funded capex and reduction in guaranteed emergency credit line (GECL)/term loans.

### **Working capital intensive nature of business**

Being a gold and diamond jewellery retailer, the firm has to keep sufficient finished goods inventory at its showrooms to ensure ready availability of stock for display and sales, which leads to higher inventory period. Average inventory days remained high at 202 days in FY24 (FY23: 193 days). Consequently, operating cycle elongated to 192 days in FY24 from 178 days in FY23. CARE Ratings expects operations to remain working capital intensive owing to high inventory holding.

### **Vulnerability of margins to fluctuations in gold prices**

Being in the diamond and gold jewellery business, the firm is exposed to risk associated with raw material price volatility, which is decided in the international market. The impact of constant rise in gold prices on the firm's profitability margins will remain a key rating sensitivity. However, the firm follows the inventory replenishment model, as prevalent in the retail jewellery business, which helps in mitigating volatile gold prices to an extent. The gold metal loan (GML) has an in-built hedging mechanism to protect against gold price volatility. While the firm has this mechanism in place, it remains exposed to large fluctuation in prices, which may affect its credit profile.

### **Intense competition from organised and unorganised players and competition within the PNG brand**

The retail gold jewellery industry is a fragmented industry with a high level of competition from organised and largely unorganised sectors, which caters to different customer segments. Low entry barriers limit pricing flexibility leading to minimum scope for margin expansion. This is also indicated by marginal improvement in PBILDT margins to 5.93% in FY24 from 5.56% in FY23, owing to competitive scenario, leading to discount offered on making charges, impacting profitability. CARE Ratings understands that the competition may increase further with more new showrooms being launched by established players around Pune city. Competition within entities operating under the 'PNG' brand also exists.

### **Constitution as a partnership concern**

The firm is a partnership concern managed by the Gadgil family for long and currently has three partners managing. Due to the composition of the firm, it is exposed to the risk of capital withdrawal by of partners at any given point of time. Partners have not withdrawn significant amount of capital in the past years (apart from partners' salaries and interest on capital), reflecting the track record of investing the firm's profits for the growth of its operations. However, partners have withdrawn capital towards the payment of EMI of Lulla Nagar and Bund Garden stores, which are being used for the firm's business.

### Susceptible to regulatory risks in the jewellery industry

The sector has been one of the most regulated, since gold makes India's second-largest import bill only after petroleum. To reduce current account deficit (CAD) measures are announced on domestic consumption of gold. Measures include raising import duty on gold purchases on gold jewellery, measures to curb circulation of black money and ensure greater transparency in the system. With compulsory hallmarking from June 2021, the inventory holding period is expected to increase, which will mean higher inventory cost. However, hallmarking jewellery is expected to benefit organised players such as PNG. The sector continues to be vulnerable to regulatory risk and adverse movement of CAD or consequent measures taken by the government/Reserve Bank of India (RBI) would pose risk to gold demand and viability of companies in this industry.

### Liquidity: Adequate

The firm manages its working capital efficiently using the cash and carry model, customer advances under schemes, unsecured loans from customers, and working capital facilities in the form of cash credit and GML from the bank. PNG's liquidity is characterised by cash accruals of ~₹9-10 crore for FY25 against repayment obligation in the range of ₹8 crore towards its term loan/GECL loans in FY25. However, repayment obligation is expected to reduce in the medium term in the absence of fresh term loan or GECL loan, leaving sufficient cushion between cash accruals and repayment obligation. The firm's current ratio stood at 1.39x as on March 31, 2024 (PY: 1.54). The firm requires working capital for maintaining inventory at showrooms and managing showroom expenses. Average working capital utilisation was ~89% for 12 months ended October 31, 2024.

### Assumptions/Covenants: Not applicable

### Environment, social, and governance (ESG) risks: Not applicable

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Retail](#)

[Short Term Instruments](#)

### About company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

PNG is a partnership firm, managed by Padmini Gadgil, and her two sons, Akshay Gadgil and Rohan Gadgil, fifth-generation entrepreneurs from the Gadgil family. The firm is engaged in retail trading gold jewellery, diamonds, precious and semi-precious colour stones, pearls, coral-studded jewellery in gold and silver. The firm's sales comprise mainly gold jewellery (accounting for ~75-80% of TOI) with diamond jewellery (~13-18% of TOI), silver, platinum, stones and pearls.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (UA)
Total operating income	453.55	455.00	316.79
PBILDT	25.23	26.96	17.06
PAT	4.89	5.19	2.33
Overall gearing (times)	2.32	2.30	2.46
Interest coverage (times)	1.53	1.48	1.54

A: Audited UA: Unaudited; Note: these are latest available financial results

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

**Any other information:** Not applicable

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

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	70.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	31-03-2033	22.65	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	60.00	CARE BBB; Stable / CARE A3+

**Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	70.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jan-24)	1)CARE BBB; Stable (26-Dec-22)	1)CARE BBB; Stable (07-Jan-22)
2	Fund-based - LT-Term Loan	LT	22.65	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jan-24)	1)CARE BBB; Stable (26-Dec-22)	1)CARE BBB; Stable (07-Jan-22)
3	Fund-based - LT/ST-Cash Credit	LT/ST	60.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (03-Jan-24)	1)CARE BBB; Stable / CARE A3+ (26-Dec-22)	1)CARE BBB; Stable / CARE A3+ (07-Jan-22)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (26-Dec-22)	1)CARE BBB; Stable (07-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Cash Credit	Simple

**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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