

PC Jeweller Limited

January 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Medium Term Instrument-Fixed Deposit Programme	300.00 (enhanced from 200.00)	CARE BBB (FD); Negative [Triple B (Fixed Deposit); Outlook: Negative]	Reaffirmed
Total Facilities	300.00 (Rs. Three hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating for the medium term instruments of PC Jeweller Ltd (PCJ) factors in the experience of the promoters with long track record of operations in the G&J industry, its healthy net-worth base, established brand name of PCJ, in-house jewellery designing and manufacturing capabilities, growth in scale of operations and comfortable profitability margins. The rating is however constrained by the regional concentration of revenue, working capital intensive nature of operations resulting in high total debt/gross cash accruals and highly regulated & competitive nature of the G&J industry.

The ability of the company to maintain its comfortable capital structure amidst expansion, while geographically diversifying its revenue base, along with effectively managing its working capital requirements remains the key rating sensitivities.

Outlook: Negative

The outlook is 'Negative' on expectation of the liquidity pressure on the company in the near to medium term. The rating maybe revised downwards if the working capital requirement together with the dividend payments put additional stress on the liquidity position. However, the outlook may be revised to stable in case the company is able to ramp up its retail expansion primarily through franchisee route thereby, reducing overall reliance on debt leading to an overall improvement in liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

Mr. Padam Chand Gupta and Mr. Balram Garg, Promoter Directors of PCJ have an experience of more than two decades in the manufacturing and retail sales of hand crafted gold jewellery. Prior to joining PCJ, they had worked for their family owned jewellery firm.

Long track record of operations, wide product range, Significant manufacturing capabilities and established brand image

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 set-up a strong manufacturing set-up through backward integration comprising of a dedicated in-house designing and manufacturing unit. The company exports gold and diamond jewellery on a wholesale basis to international distributors in Dubai. PCJ sell a wide range of jewellery with specialization in bridal jewellery. Company's wide range of product offerings caters to diverse customer segments, from the value market to high-end customized jewellery. PCJ's product profile includes traditional, contemporary and combination designs across jewellery lines, usages and price points.

Financial risk profile marked by growth in scale of operations and a healthy net worth base

The financial risk profile of the company is characterized by growth in the scale of operations, comfortable profitability margins and debt coverage indicators. PCJ's total revenue has grown at a CAGR of ~14.44% over FY15-FY18. The total income of the company registered a y-o-y growth of ~13% to Rs.9581.35 crore in FY18 vis-à-vis Rs. 8205.86 crore in FY17 on the back of showroom wise expansion and company's increased focus on tapping the domestic market which gives higher margin than exports. The PBILTD margins in FY18 have improved marginally because of increased contribution of diamonds to the total operating income whereby the margins are higher as compared to gold.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses**Decline in PCJ's financial flexibility and liquidity**

The erratic movement in share price of PC Jewellers, and an overall significant erosion in its market capitalization since the beginning 2018 had a weakening effect on PCJ's financial flexibility and its liquidity. In addition, the dividend payments (on both preference and equity shares) announced in May 2018 along with the increase in margin money requirement for its incremental working capital has also put liquidity pressure on the company in the near to medium term.

The stock price of PCJ has declined sharply on NSE from a level of Rs. 391.45 as on Feb 6, 2018 to a level of Rs.85.00 as on December 27, 2018.

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 being head-quartered at Karol Bagh, New Delhi. The company's 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.

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 operating cycle stood at 119 days for FY17.

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.

Analytical Approach followed: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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](#)

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. The company has reported operating income of Rs.4118.61 crore with a PAT of Rs.235.66 crore in H1FY19 as compared with Rs.4779.84 crore in H1FY18 with a PAT of Rs.286.41 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8205.86	9,581.35
PBILDT	867.42	1,097.88
PAT	430.45	567.90
Overall gearing (times)*	1.11	1.23
Interest coverage (times)**	3.20	3.67

A: Audited, NM: Not meaningful

*Unsecured loans forming part of promoter contribution has been considered as debt in calculating the ratio

**Interest on unsecured loans forming part of promoter contribution has been considered in calculating the ratio

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to 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
Fixed Deposit	-	-	-	300.00	CARE BBB (FD); Negative

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.	Fixed Deposit	LT	300.00	CARE BBB (FD); Negative	1)CARE BBB (FD); Negative (24-Jul-18) 2)CARE A (FD); Negative (09-Jul-18) 3)CARE A+ (FD) (Under Credit watch with Negative Implications) (30-Apr-18)	1)CARE A+ (FD); Stable (10-Aug-17)	1)CARE A+ (FD) (19-Sep-16)	1)CARE A+ (FD) (01-Feb-16) 2)CARE A+ (FD) (29-Apr-15)
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	-	1)Withdrawn (19-Sep-16)	1)CARE A+ / CARE A1 (01-Feb-16)

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