PC Jeweller Limited

April 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Medium Term Instrument-Fixed Deposit Programme	500.00	**CARE A+ (FD) [Single A plus (Fixed Deposit); Credit Watch with Negative Implications]**	**Rating placed on credit watch with Negative Implications**
Total Facilities	**500.00 (Rs. Five hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating for the medium term instruments of PC Jeweller Ltd (PCJ) has been placed on credit watch with negative implications on account of significant erosion in its share price and market capitalization during the last week of April 2018. In CARE's opinion this development has a weakening effect on PCJ's financial flexibility, and liquidity. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating when more clarity emerges in this matter.

The rating continues to factor in the strong financial risk profile of the company marked by constant growth in scale of operations, good profitability margins and relatively comfortable debt service coverage indicators. The rating also takes into account 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 and strong risk management set-up of the company. The rating, however, is constrained by the regional concentration of revenue, working capital intensive nature of operations resulting in high total debt/gross cash accruals, increasing exposure to group companies and highly regulated & competitive nature of the G&J industry. Going forward, 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.

Detailed description of the key rating drivers

Fall in share price

The stock price of PCJ has declined sharply by around 50% on NSE from a level of Rs.289.35 as on April 24, 2018 to a level of Rs.144.50 as on April 30, 2018. The stock price movement is similar on BSE as well. As per the clarifications shared by the company with the stock exchanges, it is not aware about the reason for this sharp decline in its share price. The company has also informed that it will consider recommending dividend for both Preference share and equity share and also consider the proposal for buy back of equity shares in its board meeting on May 25, 2018. In CARE's opinion this development has a weakening effect on PCJ's financial flexibility, and its liquidity. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating when more clarity emerges in this matter.

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. Mr. Padam Chand Gupta takes care of the strategic ventures of PCJ whereas Mr. Balram Garg is actively involved in the day to day operations of the company.

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

Long track record of operations, wide product range 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). The company exports gold and diamond jewellery on a wholesale basis to international distributers 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.

Significant manufacturing capabilities with a dedicated in-house designing team

PCJ has set-up a strong manufacturing set-up through backward integration comprising of a dedicated in-house designing and manufacturing unit. Presently, PCJ has around 107,000 sq. ft. area dedicated towards manufacturing of jewellery, which caters to around 60% of the total requirement of the company. Balance 40% of the demand for gold jewellery is manufactured on job work basis through a number of local suppliers in Kolkata, Rajkot and other parts of the country.

Strong financial risk profile marked by continuous growth in operations and a strong net worth base

The financial risk profile of the company is characterized by continuous growth in the scale of operations, strong profitability and comfortable debt coverage indicators. PCJ's total revenue has grown at a CAGR of ~15% over FY14-FY17. PCJ received infusion in the form of Compulsorily Convertible Debentures (CCDs) from DVI Fund (Mauritius) Ltd in May, 2016 of Rs. 427 crore and Compulsorily Convertible Preference Shares (CCPS) of Rs. 257 crore from Fidelity in Sept 2016 which will allow the company to further scale up the operations. The capital infusion and continuous increase in net worth has also resulted in the overall gearing (including acceptances) of PCJ reducing to 1.11x as on March 31, 2017 as against 1.31x as on March 31, 2016. However, the Total Debt/Gross Cash Accruals of the company continues to remain high at 8.33x as on March 31, 2017 (P.Y. 7.93x). For the period 9MFY18, PCJ reported an operating income of Rs.7473.43 crore and a PAT of Rs.449.12 crore.

Strong risk management set-up

PCJ has strong risk management strategies to safeguard its margins from any risk arising out of the commodity and forex fluctuations. PCJ has a dedicated centralized purchase unit at their head office in Karol Bagh, New Delhi, which decides on the amount of gold to be procured based on daily sales volume. The company also avails the gold metal loan/gold on lease scheme, wherein PCJ enjoys a 180 day credit period on gold purchases which has inbuilt hedging mechanism.

Key Rating Weaknesses

Geographic 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 derives ~46% of its domestic revenue from the region. The concentration of operations in Delhi NCR exposes company to any adverse developments related to competition, as well as economic, demographic and other changes in the Delhi NCR, 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 124 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

- 1% excise duty of gold sales which resulted in temporary loss of sales during March and April 2016 due to strike by the jewellers but the same is likely to augur well for the organized sector players like PCJ in the long term.

The domestic retail demand had also been impacted in FY17 due to demonetization of currency announced on November 8, 2016. However, the sector is expected to see growth on back of fading of regulatory headwinds such as demonetization and GST implementation. The implementation of GST is expected to augur well for the organized players such as PCJ. Prior to GST being implemented, the overall tax rate on gold jewellery stood at 12.2%. This was made up of 10% customs duty, 1% excise duty and 1.2% VAT. Under GST, the tax rate on gold has been fixed at 3% which has replaced 1% excise duty and 1.2% VAT imposed earlier. The GST rate of 3% is over and above the customs duty of 10%. GST implementation is likely to help the company save 1-2% due to input credit available on marketing expense and rentals and savings on transferring goods from head office to branch. The sector, however, 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
CARE's methodology for 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	7281.35	8205.86
PBILDT	808.35	867.42
PAT	399.66	430.45
Overall gearing (times)*	1.31	1.11
Interest coverage (times)**	3.38	3.20

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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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	-	-	-	500.00	CARE A+ (FD) (Under Credit watch with Negative Implications)

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	500.00	CARE A+ (FD) (Under Credit watch with Negative Implications)	-	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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