PC Jeweller Limited

August 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Medium Term Instrument-Fixed Deposit Programme*	500.00	**CARE A+ (FD); Stable [Single A plus (Fixed Deposit); Outlook Stable]**	Reaffirmed
Total Facilities	**500.00 (Rs. Five hundred crore only)**		

Details of instruments/facilities in Annexure-1
**the total amount outstanding under the scheme as on June 30, 2017 stood at Rs.120.58 crore*

Detailed Rationale& Key Rating Drivers
The rating assigned to the medium term instruments of PC Jeweller Ltd (PCJ) favorably factors 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, healthy net-worth base of the company, 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
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. With experience and strong relationship with customers, suppliers and industry participants, promoters had managed to increase the total number of showrooms under PCJ brand from three showrooms in 2007 to 79 showrooms as on July 31, 2017.

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. Over the years with diverse product range and ability to provide customized designs to its customers along with strong marketing efforts, company has been able to develop strong brand recognition and customer loyalty.
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. While a portion of the company's gold manufacturing is outsourced, the entire diamond jewellery is produced in-house in Special Economic Zones (SEZ) located in Dehradun and Noida.

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

PCJ has an in-house 50 plus people strong designing team entrusted with the task of product innovation and development of new products. The company has undertaken regular market surveys, researches and participated in various national and international trade fairs and G&J shows, aiming at gaining insights into G&J market trends.

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. While revenues from export have seen a ~28% CAGR over the same period, the revenue from the domestic sales have witnessed a CAGR of ~10%. 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). PCJ has also been increasing its exposure to its subsidiaries in the form of investments and loans. The loans and advances (including accrued interest) outstanding as on March 31, 2017 were Rs.288.33 crore and Rs.9.31 crore respectively to its subsidiaries and bodies corporate viz., PC Universal Private Limited (Rs.267.68 crore), Luxury Products Trendsetter Private Limited (Rs.20.65 crore) and Shivani Sarees Private Limited (Rs.9.31 crore). As on March 31, 2017, PCJ had investments aggregating Rs.133.93 crore of which Rs.133.86 crore were invested in PC Jeweller Global DMCC during FY17.

Strong risk management set-up

PCJ has devised robust 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. Even though the company has been strategically diversifying to the other parts of the country, but the success of the company in other parts of the country is yet to be seen. The company derives nearly 80% of its domestic revenue from the Northern States.

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. Further since PCJ has been a major diamond player, and procurement of diamond is not as standardized and regular like gold, the company has to procure and maintain adequate amount of diamond stock as well, which calls for high working capital requirement. The operating cycle stood at 124 days for FY17. The Average Working Capital Utilisation of the company for last 12 months upto May 2017 stood at over 93%.

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: 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. Started in April 2005 with a single showroom in Karol Bagh, New Delhi, by first-generation entrepreneurs and brothers, Mr. Padam Chand Gupta and Mr. Balram Garg, PCJ now has 79 showrooms across 62 cities and 18 states as on July 31, 2017. PCJ was originally incorporated as "P Chand Jewellers Pvt. Ltd.", which in July 2011, changed its name to "PC Jeweller Ltd." and became a public limited company. During December 2012, PCJ came out with an IPO and got listed on BSE and NSE.
During FY17 (refers to the period April 01 to March 31), PCJ achieved a PAT of Rs.430.45 crore on a total operating income of Rs.8205.86 crore as against PAT of Rs.399.66 crore on a total operating income of Rs.7281.35 crore during FY16. As per the unaudited results for Q1FY18, PCJ achieved a PAT of Rs.135.82 on a total operating income of Rs.2140.03 crore.

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

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); Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fixed Deposit	LT	500.00	CARE A+ (FD); Stable	-	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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CIN - L67190MH1993PLC071691