PC Jeweller Limited

August 22, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Medium Term Instrument-Fixed Deposit Programme	300.00*	CARE BB+ (FD); Negative [Double B Plus (Fixed Deposit); Outlook: Negative)	Reaffirmed, removed from Credit Watch
Total	**300.00 (Rupees Three hundred crore only)**		

Details of instruments/facilities in Annexure-1

*out of which Rs. 126 crore was outstanding as on June 30, 2019

Detailed Rationale & Key Rating Drivers

The rating assigned to the medium term instrument of PC Jeweller Limited have been removed from credit watch with developing implications as Board of Directors of the company in its meeting held on August 09, 2019 have reviewed its earlier decision and decided not to pursue the scheme keeping in view the declining export business of the company. Earlier the rating was placed Under credit watch with developing implications on account of the announcement by the company for the scheme of arrangement for demerger of 'Export Division' of the company and subsequent amalgamation of the same with its Wholly Owned Subsidiary Company i.e. PCJ Gems & Jewellery Limited.

The rating continues to factor in the deterioration in the financial performance of the company in FY19 (refers to the period from April to March 31) as reflected by its declining revenue, stressed profitability, elongated operating cycle and deterioration in the debt coverage indicators of the company. Further, the liquidity position and financial flexibilty of the company has also weakened marked by decline in cash and bank balance and reduced market capitalization. The rating remains constrained by the regional concentration of revenue, working capital intensive nature of operations and highly regulated & competitive nature of the Gems & Jewellery (G&J) industry.

The rating, however, continues to derive strength from experienced promoters of the company having 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.

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

Outlook: Negative

The negative Outlook has been assigned on account of expected deterioration in the financial risk profile of the company with the significant decline in the revenues of the company (majorly from export business segment of the company) in Q1FY20 and expected stress on the liquidity owing to high export trade receivables of the company and continuous deterioration in the market capitalizations of the company. The ratings may be revised downwards if any increase in borrowings for expansion or due to further delay in recoveries of export receivables affects the liquidity of the company. The outlook may be revised to 'Stable' if the company is able to improve its key financial parameters including its liquidity profile.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in Financial risk profile

The financial risk profile of the company is characterized by de-growth in the scale of operations and net losses for FY19. PCJ's total revenue has declined from Rs. 9581.35 crore in FY18 to Rs. 8461.17 crore, on account of reduction in revenue from the export business of the company. Revenue from export business of the company has declined from Rs. 2690 crore in FY18 to Rs. 1440 crore in FY19 as the company has provided a discount of Rs. 513.65 crore to its export customers during Q4FY19. As per the management of the company, company had entered into a settlement with its export buyers whereby it extended them a discount to the tune of Rs. 513.65 crore and the discount was provided as a onetime settlement against the gross sales of Q4FY19. These discounts though pertain to the long pending dues of the company and company is expecting the pace of realizations of its export receivables to accelerate after this discount.

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

Trade receivables of the company have substantially reduced from Rs. 1722 crore as on March 31, 2019 to Rs. 1478 crore as on May 31, 2019 after providing discounts.
Further, as a result of discount given by the company, PBILDT Margins of the company reduced from 11.46% in FY18 to 4.25% in FY19 and company has reported a net loss of Rs. (2.81) crore in FY19 as against PAT of Rs. 568 crore in FY18. Interest Coverage Ratio of the company also reduced from 3.67 times for FY18 to 1.06 times for FY19.
Furthermore, total revenue of the company declined from Rs. 2455 crore in Q1FY19 to Rs. 1358 crore in Q1FY20 with revenue from export business has declined from Rs. 807 crore in Q1FY19 to Rs. 126 crore in Q1FY20.

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. Inventories of the company stood at Rs. 5092 crore as on June 30, 2019 as against inventory of Rs. 4988 crore as on March 31, 2019 and Rs. 4842 crore as on June 30, 2018. Export Trade receivables of the company remains high and stood at Rs. 1722 crore as on March 31, 2019 as against Rs. 1700 crore as on March 31, 2018. However, after negotiation and providing discount to the export debtors, the total trade receivables of the company have reduced from Rs. 1773 crore as on March 31, 2019 to Rs. 1618 crore as on June 30, 2019. Operating Cycle of the company increased to 195 days for FY19 as against 122 days for FY18.

Moderate Liquidity
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. The stock price of PCJ has declined sharply from a level of Rs. 319.65 as on March 31, 2018 to a level of Rs.82.50 as on March 31, 2019 and further declined to a level of Rs. 32.90 as on August 20, 2019. Also. The market capitalization of the company reduced significantly from Rs. 12,606 crore as on March 31, 2018 to Rs. 3256 crore as on March 31, 2019 and further reduced to Rs. 1298 crore as on August 20, 2019. There is also decline in Cash and Bank Balance of the company from Rs. 1491.4 crore as on March 31, 2018 to Rs. 318.9 crore as on March 31, 2019 indicating moderation in the liquidity position of the company.
Further, average fund based and non based limits of the company also remains almost fully utilized and average of month end utilisation for the past 12 months ending May, 2019 stood at 91.17%. All this has constrained the liquidity of the company in the near to medium term.

Moderate Capital Structure
The company is gradually shifting from non-fund to fund-based facilities in the last few months due to stoppage of domestic metal gold loan (MGL) facilities by various banks. In the case of exports also, foreign banks have largely reduced their exposure on Indian Banks and are not accepting import SBLCs issued by many Indian Banks. The company is therefore using more of fund based limits for both domestic as well as export operations. This has impacted the company's finance costs. Interest cost of the company increased from Rs. 312 crore in FY18 to Rs. 340 crore in FY19; however total debt of the company reduced from Rs. 4624 crore as on March 31, 2018 to Rs. 3404 crore as on March 31, 2019 with reduction in LC acceptances of the company from Rs. 3385 crore as on March 31, 2018 to Rs. 1120 crore as on March 31, 2019, which is partially offset by increase in working capital borrowings of the company from Rs. 876 crore as on March 31, 2018 to Rs. 2091 crore as on March 31, 2019. Net-worth of the company remains at Rs. 3936 crore as against Market capitalization of Rs. 3256 crore as on March 31, 2019 (Rs. 3926 crore of Net-worth as against market capitalization of Rs. 12606 crore as on March 31, 2018).
Further, gross cash accruals of the company turned to negative and stood at Rs. (4.40) crore for FY19 as against Rs. 591.98 crore for FY18.

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.

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.

Key Rating Strengths

Experienced promoters and management team
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, he had worked for his 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 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.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
Criteria for placing rating on credit watch
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. 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.
The share of domestic sales and export sales in the revenue from operations on standalone basis is Rs. 6929 crores (83%) and Rs. 1440 crores (17%) respectively in FY19. Export business of the company is B2B and company exports handmade Jewellery to international distributors in Dubai.
The Board of Directors of the Company in its meeting held on May 11, 2019 had approved the Scheme of Arrangement for Demerger of 'Export Division' of PC Jeweller Limited (demerged company) and subsequent Amalgamation of the same with its Wholly Owned Subsidiary Company i.e. PCJ Gems & Jewellery Limited (resulting company) with effect from the Appointment date i.e. April 01, 2019. However, now, Board of Directors of the company in its meeting held on August 09, 2019 have reviewed its earlier decision and decided not to pursue the scheme keeping in view the declining export business of the company.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	9581.35	8461.17
PBILDT	1097.88	359.90
PAT	567.90	-2.81
Overall gearing (times)*	1.23	0.86
Interest coverage (times)	3.67**	1.06

A: Audited

**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

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 BB+ (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fixed Deposit	LT	300.00	CARE BB+ (FD); Negative	1)CARE BB+ (FD) (Under Credit watch with Developing Implications) (10-Jun-19) 2)CARE BBB (FD) (Under Credit watch with Developing Implications) (21-May-19)	1)CARE BBB (FD); Negative (02-Jan-19) 2)CARE BBB (FD); Negative (24-Jul-18) 3)CARE A (FD); Negative (09-Jul-18) 4)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)
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	-	-	1)Withdrawn (19-Sep-16)

***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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