PC Jeweller Limited

November 26, 2019

Ratings

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

Details of instruments/facilities in Annexure-1

*out of which Rs. 86 crore was outstanding as on September 30, 2019

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the medium term instrument of PC Jeweller Limited (PCJ) factors in stressed liquidity position and deterioration in the financial flexibility of the company as reflected in instances of overutilization of its fund based and non-fund based limits in past few months, continuous decline in market capitalization and declining cash and bank balance. The rating further factors in moderation in the financial performance of the company in FY19 and H1FY20 as reflected by its declining revenue, stressed profitability, elongated operating cycle and deterioration in the debt coverage indicators of the company. Further, the rating continues to remain 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, established brand name of PCJ, in-house Jewellery designing and manufacturing capabilities.

Key rating Sensitivities

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

Positives

- Effective management of working capital limits (fund based and non fund based)
- Increase in scale of operations and profitability
- Timely realizations from its export debtors

Negatives

- Decline in the income of the company
- Any mismatches in the working capital requirements on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Stressed Liquidity

Liquidity of the company continues to remain stressed as reflected in instances of overutilization of the fund based and non based limits of the company in past few months. Average fund based and non fund based limits of the company have remained almost fully utilized and average of month end utilisation for the past 12 months ending May, 2019 stood at 91.13%. Further, significant erosion in its market capitalization since the beginning 2018 had a weakening effect on PCJ's financial flexibility and its liquidity. 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 to Rs. 1270 crore as on November 15, 2019. There is also a decline in Cash and Bank Balance of the company from Rs. 1491.47 crore as on March 31, 2018 to Rs. 318.88 crore as on March 31, 2019 and further to Rs.159.02 crore as on September 30, 2019, reflecting moderation in the liquidity position of the company.

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. 9582.26 crore in FY18 to Rs. 8456.20 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

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

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 pertained to the long pending dues of the company and company was expecting the pace of realizations of its export receivables to accelerate after this discount. Further, as a result of discount given by the company, PBILDT Margins of the company reduced from 11.57% in FY18 to 4.55% 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 3.58 times for FY18 to 1.13 times for FY19.
Further, total revenue of the company declined from Rs. 4118.61 crore in H1FY19 to Rs. 2499.04 crore in H1FY20 with revenue from export business declining from Rs. 892.40 crore in H1FY19 to Rs. 219.57 crore in H1FY20. The export business is on a declining trend and revenue from export business has declined from 22% of total income in H1FY19 to around 9% of total income in H1FY20.

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. 5310 crore as on September 30, 2019 as against inventory of Rs. 5092 crore as on June 30, 2019 and Rs. 4988.11 crore as on March 31, 2019. Increase in inventory as on Sep 30, 2019 is on account of festive seasons.
Trade receivables of the company have reduced from Rs. 1773 crore as on March 31, 2019 to Rs. 1631 crore as on September 30, 2019 (Rs. 1618 crore as on June 30, 2019) after providing discounts. After subsequent negotiation and providing discount to the export debtors, Export receivables of the company reduced from Rs. 1745 crore as on March 31, 2019 to Rs. 1581 crore as on September 30, 2019. Further, company has received Rs. 114 crore towards realization of old export receivables in 44 days after Sep 30, 2019. The operating Cycle of the company stood at 297 days for FY19 (PY: 253 days).

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 is 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. PCJ's wide range of product offerings caters to diverse customer segments, from the value market to high-end customized jewellery. Its product profile includes traditional, contemporary and combination designs across jewellery lines, usages and price points. During FY19, the company launched 5 sub-brands within its overall jewellery segment to cater a wider range of customers. The sub-brands were namely- Mirosa, Inayat, Azwa, Love Gold, Swarna Dharohar.

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. 309.65 crore in FY18 to Rs. 341.63 crore in FY19; however total debt of the company reduced from Rs. 4641 crore as on March 31, 2018 to Rs. 3383 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. Total debt of the company as on September 30, 2019 stood at Rs. 3296 crore. Net-worth of the company remains at Rs. 4012 crore as on Sep 30, 2019 as against market capitalization of Rs. 1270 crore as on November 15, 2019. Further, the gross cash accruals of the company turned negative and stood at Rs. -4.31 crore for FY19 (PY: Rs. 591.98 crore). GCA of the company for H1FY20 stood at Rs. 93.83 crore. Further, the promoters of PC Jewellers has also infused around Rs. 215 crore in Q2FY20 to shore up the NWC of company in the form of unsecured loan (non interest bearing) and this loan is likely to be converted into equity or equity like instrument in due course subject to approvals and compliance with applicable laws. Overall Gearing (including acceptances) of the company stood at 0.86x as on March 31, 2019 (1.18x as on March 31, 2018) and 0.82x as on September 30, 2019.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch 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
Rating Methodology-Cut and Polished Diamonds sector

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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	9582.26	8456.20
PBILDT	1108.77	385.16
PAT	567.9	-2.81
Overall gearing (times)	1.18	0.86
Interest coverage (times)	3.58	1.13

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

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 B (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 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 B (FD); Stable	1)CARE BB+ (FD); Negative (22-Aug-19) 2)CARE BB+ (FD) (Under Credit watch with Developing Implications) (10-Jun-19) 3)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)

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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