

PC Jeweller Limited

December 10, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Medium Term Instrument-Fixed Deposit Programme	300.00*	CARE D (FD) [Single D (Fixed Deposit)]	Revised from CARE B (FD); Stable [Single B (Fixed Deposit); Outlook: Stable]
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 which has led to instances of devolvement of Letter of Credits (LC) and overutilization in its working capital limits for more than 30 days. The rating further factors in continuous decline in market capitalization, declining cash and bank balance and 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. 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 its working capital limits (fund based and non-fund based)
- To increase its scale of operations and profitability
- Timely realizations from its export debtors

Detailed description of the key rating drivers

Key Rating Weaknesses

Stressed Liquidity

Liquidity of the company continues to remain stressed as reflected in devolvement of LCs during the past few months & instances of overutilization of the fund based limits for more than 30 days. Average fund based and non-fund based limits of the company have remained almost fully utilized and average of month end utilization 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. 989.48 crore as on December 09, 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 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

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

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 head quarters 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 distributors 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 D (FD)

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

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 D (FD)	1)CARE B (FD); Stable (26-Nov-19) 2)CARE BB+ (FD); Negative (22-Aug-19) 3)CARE BB+ (FD) (Under Credit watch with Developing Implications) (10-Jun-19) 4)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)

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

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.

Contact us**Media Contact**

Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst 1 Contact

Name: Ms Ravleen Sethi
Contact no: 011 - 4533 3278
Email ID: ravleen.sethi@careratings.com

Analyst 2 Contact

Name: Mr Gaurav Dixit
Contact no: 011 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Business Development Contact

Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. 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.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**