

Pannalal Mahesh Chandra Jewellers

August 07, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	9.00	CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/A Four)	Revised from CARE B+; Stable/CARE A4; Issuer Not Cooperating* (Single B Plus; Outlook: Stable/A Four; Issuer Not Cooperating*)
Short term Bank Facilities	20.15	CARE A4 (A Four)	Revised from CARE A4; Issuer Not Cooperating* (A Four; Issuer Not Cooperating*)
Total	29.15 (Rupees twenty nine crore and fifteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pannalal Mahesh Chandra Jewellers (PMCI) continue to be constrained by the PMCI's modest scale of operations, low profitability margin, constitution of entity being partnership and dealings in highly government regulated commodities (Agro and Non-Agro). Furthermore, the ratings continue to factor in intense competition and the firm's operations being part of highly regulated industry. However, the ratings derive comfort from experienced partners and long track record of operations, trading in diverse commodities, average financial risk profile with adequate liquidity.

Rating Sensitivities

Positive Factors

- Increase in Total Operating Income over Rs.400 crore and PBILDT margin above 3.00% and ROCE above 10.00% on a sustained basis.

Negative Factors

- De-growth in Total Operating Income below Rs.180 crore and PBILDT margin below 1.5% on a sustained basis.
- Overall gearing ratio deteriorating to more than 1.10x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations and low profitability margins: The total operating income of the firm stood modest at Rs. 205.74 crore in FY20 (refer to period: April 01 to March 31) (PY: Rs. 157.61 crore), mainly because the firm is diversifying its product portfolio from bullion to non-bullion and agro based commodities. Owing to trading nature of operations and low margins from bullion trading, the PBILDT and PAT margin stood low at 1.63% and 0.61% during FY20 (PY: 1.07% and 0.52% respectively). Return on Capital employed of PMCI stood low at 9.34% for FY20 (PY: 4.78%). The total debt to cash flow from operations before WC improved, however, stood high at 9.13x as on March 31, 2020 (PY: 16.27x) as a result of lower profitability and low operating cash flow. Despite disruption from lockdown amid outbreak of Covid-19, PMCI managed to report total sales of Rs. 45.24 crore in Q1FY21 (refers to period: April 01 to June 30).

Constitution of the entity being partnership firm: PMCI's constitution as a partnership firm restricts its overall financial flexibility in terms of limited access to external fund for any future expansion plans. Furthermore, there is inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency/separation of the partners.

Competition from players in organized and unorganized sector: The Gems & Jewellery industry in India is characterized by the presence of a large number of organized and unorganized players with the share of organized jewellery retail sector being merely 20%. The competition also prevails in the other commodities traded by the firm due to presence of large numbers of players.

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

*Issuer did not cooperate; Based on best available information

Highly regulated industry: The Gems & Jewellery sector in India has been one of the most regulated sectors; considering the fact that gold is the second largest item in the import bill. Therefore, the Government of India along with RBI continually undertakes various measures to keep the Current Account Deficit (CAD) within the target limit. Hence, the sector continues to be vulnerable to regulatory risk and any adverse movement of the CAD or consequent measures taken by the government/RBI.

Key Rating Strengths

Experienced partners with long track record of operations: PMCJ was founded by Mrs. Shankuntala Jain & Mr. Prashant Jain in 1994 as a partnership firm. Mr. Mahesh Chandra Jain, husband of Mrs. Shakuntala Jain, holds an experience of more than five decades in jewellery industry, handles the routine affairs of the firm. The partners also have experience in non-bullion commodities like gold/diamond/silver jewellery, diamonds, gambier, supari, etc.

Diverse product portfolio: PMCJ has a diversified product portfolio in gold/silver bullion, jewellery, diamonds, gambier, supari, chemicals, plastic granules, PVC resin, rapeseed oil, synthetic lining etc. The firm derived ~45% (PY: 44%) of its revenue from bullion sales in the FY20. The firm is planning to further expand the non-bullion trading segment with aggressive expansion in the agro & other commodities.

Average financial risk profile: Total overall gearing of PMCJ stood adequate at 0.80x as on March 31, 2020 (PY: 0.84x), the total debt mainly includes LC Acceptances, unsecured loan from related parties and CC/PCFC outstanding. Total debt to GCA of the firm, although high, improved to 14.77x as on March 31, 2020 (PY: 22.52x), the improvement is primarily on account of better cash accruals in FY20 coupled with marginally lower total debt. Owing to increase in interest cost, the interest coverage ratio moderated to 2.42x for FY20 (PY: 3.06x).

Liquidity : Adequate

The average working capital cycle of the firm stood at 34 days for FY20 (PY: 37 days). The average utilization of cash credit limit remains low at ~19% for the 12 month period ending June 30, 2020. Free cash and cash equivalent as on March 31, 2020 stood at Rs. 1.38 crore. The average cash credit utilization for trailing 12 months period ending June, 2020 stood low at 18.03%. PMCJ has not applied for moratorium for payment of interest or any ad-hoc limits under RBI's Covid-19 relief scheme. The unutilized CC limits as on June 30, 2020 stood at ~Rs. 3.50 crore. The firm has no fixed debt repayment obligations and no plans for capex.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Incorporated in 1994, Pannalal Mahesh Chandra Jewellers (PMCJ) is a partnership firm promoted by Mrs. Shakuntala Jain, wife of Mr. Mahesh Chandra Jain & Mr. Prashant Jain, son of Mr. Mahesh Chandra Jain in equal capacity. The firm deals in bullion and non-bullion jewelry, non-agro items and a few agro items. In Non-bullion division the firm is dealing in purchase sale gold/diamond/silver jewellery, import of diamonds, gambier, supari, chemicals, plastic granules, PVC resin, crude palm oil, synthetic lining etc.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	157.61	205.74
PBILDT	1.69	3.35
PAT	0.81	1.26
Overall gearing (times)	0.84	0.80
Interest coverage (times)	3.06	2.42

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	9.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-BG/LC	-	-	-	20.15	CARE A4

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	9.00	CARE BB; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (30-Mar-20)	1)CARE BB; Stable / CARE A4 (29-Mar-19)	1)CARE BB; Stable / CARE A4 (30-Mar-18) 2)CARE BB-; Stable / CARE A4 (07-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	20.15	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (30-Mar-20)	1)CARE A4 (29-Mar-19)	1)CARE A4 (30-Mar-18) 2)CARE A4 (07-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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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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.

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