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ICRA assigns LBBB- rating to bank lines of Punjab Retail Private Limited

ICRA has assigned an LBBB- (pronounced L triple B minus) rating to the Rs 300 million long term fund based facilities of Punjab Retail Private Limited (PRPL)[†]. CRA has assigned a stable outlook to the long term rating.

The assigned rating favorably factors in the long standing experience of the promoters in jewellery retailing business in Indore, strong brand and diverse client base in Madhya Pradesh state. The rating also takes into account the continuous growth in business volumes aided by expansion through launch of new stores. The rating is however constrained by the high working capital intensity and price risk on account of high inventory holding and moderate debt protection indicators. Further, PRPL faces competition from various organized and unorganized players and is exposed to price risk on account of fluctuations in gold prices, as well as dependence on Indore and Bhopal markets.

PRPL has been present in jewellery retailing in the Indore market for more than 60 years. While jewellery retailing is a highly competitive business, PRPL's long presence in its established market gives it strong visibility and customer loyalty. For manufacturing, PRPL has identified a group of 40-50 small and large jewellery manufacturers across the country to which it outsources its entire jewellery making. Many of these suppliers exclusively supply to PRPL in the Madhya Pradesh region. PRPL uses its own design capabilities as well as consultation with vendors to finalize on product designs. As the entire raw material and finished goods inventory is on PRPL's books, it is exposed to adverse movements in gold prices. Further, this leads to high working capital intensity. PRPL's NWC/OI stood at 66% on March 31st, 2009 on account of high inventory days. However, ICRA draws comfort from the fact that the inventory is highly liquid.

PRPL's operating revenues grew at a moderate CAGR of 13% over the last four years, return indicators have been moderate. The gearing stood at 1.68 times as on March 31st, 2009 mainly on account of working capital borrowings. PRPL avails cash credit limits to finance its bullion purchases instead of gold loans. PRPL is in the process of opening a new showroom in which is expected to boost revenues. In the medium term, the company is looking at gradual expansion into markets like Raipur and Jabalpur.

Company Profile

Promoted by the Anand family of Indore, Madhya Pradesh, PRPL is engaged in retailing of gold, diamond and studded jewellery in Indore and Bhopal under its brand 'Punjab Jewellers'. The business which was started in 1950s is now being looked after by the third generation of the family by brothers Mr. Darpan and Mr. Gaurav Anand. In FY 09, Punjab Jewellers which owned the jewellery retailing business and PRPL which initially owned the showrooms were merged into PRPL. The company owns two retail showrooms in Indore and one in Bhopal. With the upcoming new showroom in Bhopal, the total retail space would be more than 20,000 sq ft.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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