March 31, 2022

P C Chandra(Jewellers) Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	25.00	25.00	[ICRA]A+ (Stable) reaffirmed
Long-term – Fund-based – Working Capital Demand Loan^	(25.00)	(25.00)	[ICRA]A+ (Stable) reaffirmed
Short -term – Gold Metal Loan^	(25.00)	(25.00)	[ICRA]A1; reaffirmed
Short term-Gold metal Loan	0	40.00	[ICRA]A1; reaffirmed/assigned
Total	**25.0**	**65.0**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the ratings, ICRA has taken into consideration the consolidated operational and financial profiles of the P. C. Chandra Group (Group), which includes P. C. Chandra Juels International Private Limited (PCCJIPL, rated at [ICRA]A+(Stable)/ [ICRA]A1), P C Chandra (Gems) Private Limited (PCCGPL, rated at [ICRA]A+(Stable)/[ICRA]A1), P. C. Chandra & Sons India Pvt Ltd (PCCSIPL, rated at [ICRA]A+(Stable)/ [ICRA]A1), P. C. Chandra Jewellery Apex Private Limited (PCCJAPL, rated at [ICRA]A+(Stable)/[ICRA]A1) , P C Chandra (Jewellers) Private Limited (PCCJPL, rated at [ICRA]A+(Stable)/ [ICRA]A1) and Goldlites India Private Limited (GIPL, rated at [ICRA]A+(Stable)/ [ICRA]A1) because of the managerial, operational and financial linkages among the Group companies.

The ratings action primarily considers healthy improvement in the Group's scale of operation expected in FY2022, primarily driven by improved volumes compared to the previous fiscal. The operating margin, though moderated from FY2021 levels, is also expected to be healthy, resulting in generation of healthy cash accruals. While the volume was adversely impacted in FY2021 owing to the adverse impact of the pandemic, the same has significantly improved in FY2022. The ratings also consider the Group's favourable financial risk profile, reflected by a conservative capital structure, strong debt coverage indicators and a healthy return on capital employed (ROCE). The ratings continue to draw comfort from the significant market presence of the P.C. Chandra Group (all six companies mentioned above), its strong brand position and the long experience of its promoters in the business of jewellery manufacturing and retailing, particularly in West Bengal. The restructuring with merger of jewellery operations of all the eight jewellery companies within the Group (PCCSIPL, PCCGPL, PCCJIPL, PCCJPL, PCCJAPL, GIPL, D I Jewels Private Limited and P. C. Chandra Global Jewellery Private Limited) to a single company, P. C. Chandra Holding Private Limited (PCCHPL) also resulted in a simplified ownership structure as 100% shareholding of PCCHPL is with the P.C.C. Foundation (a trust) with members of the Chandra family as trustees. ICRA expects the financial risk profile of the Group to remain comfortable given the favourable long-term demand outlook for organised jewellery retailers with their growing penetration, evolving lifestyle, growing disposable income and cultural underpinning.

The ratings are, however, constrained by the high working capital intensity of the Group's operations, mainly on account of high inventory holding. Although high gold inventory provides liquidity back-up to an extent, the same also exposes the Group's profit margins to gold price fluctuations. Additionally, the Group continues to remain exposed to geographical concentration risks as 44 out of its 53 showrooms (including one mall stop) are located in West Bengal. The ratings also factor in the intense competition and a fragmented industry structure, which are likely to keep margins under check. ICRA also notes the inherent regulatory risks in the gems and jewellery industry (which impacted the retailers' performance in the past) and a cautious lending environment, constraining the funding to the sector.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that the Group will be able to maintain its business position and benefit from the extensive experience of the promoters and established market position of the P. C. Chandra Group in gold retailing business, particularly in West Bengal.

Key rating drivers and their description

Credit strengths

Established market presence and goodwill of the P.C. Chandra Group in West Bengal; operational linkages among the Group entities – The P.C. Chandra Group has been in the gems and jewellery business since 1939. Over the past eight decades, it has developed a strong market position as a jewellery retailer in West Bengal. The goodwill of the brand in eastern India also strengthens the Group's market standing, especially given the importance of trust and the retailer's reputation in jewellery purchase decisions. Even though the jewellery industry in India witnesses tough competition from both the organised as well as the unorganised players, the P.C. Chandra Group has held its own position through superior product quality as well as creative designs. The Group entities operate in various geographical and customer segments under the same P. C. Chandra Jewellers brand, strengthening the overall operational profile of the Group. Additionally, the approval for consolidation of Group entities with jewellery operations to a single company, PCCHPL, has resulted in simplification of business structure.

Improved scale in current fiscal; favourable financial risk profile characterised by conservative capital structure, strong debt coverage indicators and healthy return on capital employed – The Group's turnover is expected to grow by 34% in FY2022 owing to improved volumes. Healthy profits at an absolute level would lead to a healthy return on capital employed of the Group and the same is likely to remain at healthy levels. The Group's capital structure continued to remain conservative due to limited borrowing vis-a-vis its strong net worth (Rs. 1,009 crore as on March 31, 2021 on a consolidated basis), as reflected by a gearing of 0.3 times as on March 31, 2021. Healthy profits at an absolute level and a conservative capital structure led to strong debt coverage metrics of the Group, with total debt to OPBDITA of 1.2 times and an interest coverage of 10 times in FY2021. ICRA expects the debt coverage metrics of the Group to remain at healthy levels.

Favourable long-term demand outlook for organised jewellery retailers – While elevated gold prices will impact the near-term gold jewellery demand, the long-term outlook remains favourable, supported by cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and growing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency, need for social distancing and higher compliance costs are likely to result in a churn in the unorganised segment, thus benefiting the organised players. The P. C. Chandra Group is well positioned to tap the incremental demand, given its reputed brand and established market position. The mandatory hallmarking of gold jewellery stipulated by BIS augurs well the organised jewellery players including P.C Chandra Group.

Credit challenges

High inventory increases working capital requirement and exposes the Group to volatility in gold prices – The P. C. Chandra Group purchases gold on a regular basis, keeping parity with its sales volume. Therefore, exposure to risks associated with gold price fluctuations is limited to the company's inventory carrying period. However, the high inventory level of the Group is on account of various designs of ornaments maintained at a large number of stores, which results in high working capital intensity of operations and simultaneously exposes the Group's profit margins to fluctuations in gold prices and remains a key rating concern.

Exposure to geographical concentration risk, with large number of stores present across West Bengal –The jewellery segment of the P. C. Chandra Group has 53 showrooms including one mall stop under its management. Among these, 44 showrooms and the mall stop are located in West Bengal and the balance nine stores are located in different cities with one each in New Delhi, Mumbai, Noida, Jamshedpur, Agartala, Bhubaneswar and Ranchi and two in Bangalore. The Group is primarily a regional player, with presence limited to West Bengal, which exposes it to significant geographical concentration risk. However, with regular addition of stores in and outside of West Bengal, the market presence of the Group is expected to increase further, going forward.

Exposed to regulatory risks – The jewellery retail industry has been witnessing increased regulatory intervention in the recent years, which impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to gold metal loans, mandatory Permanent Account Number (PAN) disclosure requirement beyond the threshold transaction limits, restrictions on jewellery saving schemes, imposition of excise duty, increase in import duty, demonetisation, GST implementation etc. had affected both demand and supply. Increasing supervision and cautious lending environment further restrict the fund flows to the sector, thus hampering the store expansion plans of retailers.

Liquidity position: Adequate

The P.C. Chandra Group's liquidity profile is **adequate.** The Group's consolidated fund flow from operations improved to ~Rs. 199 crore in FY2021 from ~Rs. 132 crore in the previous year on the back of increased profit. Its liquidity position remains comfortable with sizeable cash balance (~Rs. 74 crore on a consolidated basis as on March 31, 2021) and significant funding support in the form of unsecured borrowings from the promoters. Addition of stores to enhance market presence is likely to entail a moderate capital expenditure and is likely to be funded internally. The average utilisation of the sanctioned fund-based working capital limit (interchangeable with non-fund-based-limit) remained at moderate levels for the Group. Such cushion in the working capital utilisation, absence of long-term debt repayment obligation and the Group's highly liquid gold inventory are likely to keep its liquidity adequate.

Rating sensitivities

Positive factors – ICRA may upgrade the P. C. Chandra Group's ratings if it demonstrates a substantial growth in its scale of operations and earnings along with better inventory management, significant geographical diversification and improved product mix. Specific credit metrics that may lead to ratings upgrade include return on capital employed of 20% on a sustained basis.

Negative factors – Pressure on the P. C. Chandra Group's ratings may arise if its profitability is significantly impacted by an adverse movement in gold prices. A significant increase in the inventory holding requirement because of sizeable store expansion may adversely impact the Group's liquidity, leading to ratings downgrade. Specific credit metrics that may trigger ratings downgrade include an interest coverage ratio of less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for entities in Gold Jewellery- Retail Industry
Parent/Group Support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

PCCJPL, a part of the reputed P.C. Chandra Group, was incorporated in 1986. The Group, however, has been involved in jewellery retail since 1939 through its partnership concern, P.C. Chandra & Sons. The company is into the manufacturing and retail sales of gold, silver, and precious stone ornaments. The company has seven showrooms, of which five are in West Bengal and one each in Mumbai and Ranchi.

Key financial indicators (audited)

	PCCJPL Standalone		P. C. Chandra Group Consolidated	
Particulars	**FY2020**	**FY2021**	**FY2020**	**FY2021**
Operating Income (Rs. crore)	423.48	349.35	1,954.94	1,767.69
PAT (Rs. crore)	25.59	37.97	123.71	192.69
OPBDIT/OI (%)	10.28%	16.88%	10.60%	16.78%
PAT/OI (%)	6.04%	10.87%	6.33%	10.90%
Total Outside Liabilities/Tangible Net Worth (times)	0.57	0.44	0.60	0.52
Total Debt/OPBDIT (times)	1.73	1.17	1.57	1.16
Interest Coverage (times)	8.09	10.94	6.51	9.98

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					March 31,2022	April 08,2021	April07,2020	April 05,2019
1	Long-term – Fund-based – Cash Credit	Long term	25	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)
2	Long-term – Fund-based – Working Capital Demand Loan^	Short term	(25)	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)
3	Short -term – Gold Metal Loan^	Short term	(25)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Short term-Gold metal Loan	Short term	40	-	[ICRA]A1	-	-	-

^sublimit of cash credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – Working Capital Demand Loan^	Simple
Short -term – Gold Metal Loan^	Simple

Short term-Gold metal Loan	Simple

^sublimit of cash credit facility

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term – Fund-based – Cash Credit	-	-	-	25.00	[ICRA]A+(Stable)
Long-term – Fund-based – Working Capital Demand Loan^	-	-	-	(25.00)	[ICRA]A+(Stable)
Short -term – Gold Metal Loan^	-	-	-	(25.00)	[ICRA]A1
Short term-Gold metal Loan	-	-	-	40.00	[ICRA]A1

Source: *Company ^sublimit of cash credit facility*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
P C Chandra (Gems) Private Limited	Full Consolidation
Goldlites India Private Limited	Full Consolidation
P. C. Chandra Jewellery Apex Private Limited	Full Consolidation
P.C. Chandra Juels International Private Limited	Full Consolidation
P. C. Chandra & Sons India Pvt Ltd	Full Consolidation

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