

April 06, 2023

P. C. Chandra Jewellery Apex Private Limited: Ratings reaffirmed; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	25.0	25.0	[ICRA]A+ (Positive); reaffirmed; Outlook revised to Positive from Stable
Short-term – Gold Loan ^	(20.0)	(20.0)	[ICRA]A1; reaffirmed
Short-term – Gold Loan	10.0	10.0	[ICRA]A1; reaffirmed
Total	35.0	35.0	

*Instrument details are provided in Annexure-I

^submit of cash credit facility

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+(Positive)/[ICRA]A1), P C Chandra (Gems) Private Limited (PCCGPL, rated at [ICRA]A+(Positive)/[ICRA]A1), P. C. Chandra & Sons India Pvt Ltd (PCCSIPL, rated at [ICRA]A+(Positive)/ [ICRA]A1), P. C. Chandra Jewellery Apex Private Limited (PCCJAPL, rated at [ICRA]A+(Positive)/[ICRA]A1) , P C Chandra (Jewellers) Private Limited (PCCJPL, rated at [ICRA]A+(Positive)/ [ICRA]A1) and Goldlites India Private Limited (GIPL, rated at [ICRA]A+(Positive)/ [ICRA]A1) because of the strong managerial, operational and financial linkages among the Group companies.

The revised rating outlook considers a likely sustenance of the healthy financial performance of the Group in FY2024, following a significant improvement in FY2023. While the Group's revenue growth is likely to remain healthy at ~20% in FY2023, addition of four stores in FY2023, and another six to seven stores expected in FY2024 would further support the scale of operations in FY2024 and FY2025. The operating margin is also expected to be maintained at around 10-10.5%, resulting in a healthy cash generation and strengthening of coverage metrics in the near-to-medium term.

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. 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 and growing disposable income.

The ratings are, however, constrained by the working capital intensive nature 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 45 out of its 56 showrooms (including one mall stop) are located in West Bengal. The Group has opened new stores outside West Bengal and with more stores in pipeline, the concentration is expected to reduce in the medium term. 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.

Key rating drivers and their description

Credit strengths

Improvement in financial performance in FY2023; likely to sustain in FY2024 – The Group's turnover is expected to grow by ~19-20% in FY2023 owing to improved volumes and higher gold realisations. Healthy improvement in scale, along with sustenance of the operating margin at ~10.5%, is estimated to result in healthy accruals of the entity in the current fiscal. The performance in the current fiscal was driven by continuous operation, without any disruption from Covid restrictions. The Group has opened four stores in FY2023, and another 6-7 stores are there in the pipeline. The same will further support the scale of operation in FY2024 and FY2025. The operating margin is also expected to be maintained at around 10-10.5%, resulting in generation of healthy cash accruals in the near-to-medium term.

Favourable financial risk profile characterised by conservative capital structure, strong debt coverage indicators and healthy return on capital employed – The Group's capital structure continued to remain conservative due to limited borrowing vis-a-vis its strong net worth (Rs. 1,180 crore as on March 31, 2022 on a consolidated basis), as reflected by a gearing of 0.3 times as on March 31, 2022. 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 1.6 times and an interest coverage of 8.0 times in FY2022. ICRA expects the debt coverage metrics of the Group to remain at healthy levels in the current fiscal as well. The TOL/TNW has also remained conservative at 0.5 times in FY2022. With expected healthy margins, the debt coverage and RoCE are expected to remain strong.

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, P. C. Chandra Holdings Private Limited, has resulted in simplification of the business structure.

Favourable long-term demand outlook for organised jewellery retailers – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency and higher compliance costs have been resulting in the shifting of market share in favour of the organised jewellery retailers. This is likely to be an advantage for organised players like the P. C. Chandra Group. ICRA expects the Group to continue to increase its revenue base, supported by a loyal customer base, especially in West Bengal.

Credit challenges

Exposure to geographical concentration risk, with many stores present across West Bengal – The jewellery segment of the P. C. Chandra Group has 56 showrooms including one mall stop under its management. Among these, 45 showrooms and the mall stop are located in West Bengal and the rest of the stores are located in New Delhi, Mumbai, Noida, Jamshedpur, Agartala, Bhubaneswar, Ranchi and Bangalore. The Group is primarily a regional player, with prominent presence in 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.

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 different stores, which results in high working capital intensity of operations and simultaneously exposes the Group's profit margins to fluctuations in gold prices.

Exposed to regulatory risks – The domestic jewellery sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restriction on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit and imposition of excise duty are some of the regulations that have impacted business prospects in the past. The Group remains exposed to changes in regulations that may impact its business profile. Further, the jewellery retail business is highly fragmented and is exposed to intense competition from organised and unorganised players. This limits the pricing flexibility enjoyed by retailers to an extent.

Liquidity position: Adequate

The P.C. Chandra Group's liquidity profile is adequate. The Group's consolidated fund flow from operations is expected to remain healthy in the current fiscal on the back of increased profit. Its liquidity position remains comfortable with sizeable cash balance (~Rs. 91 crore on a consolidated basis as on March 31, 2022) 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 – The ratings could be upgraded in case of an improvement in the geographical diversification of its revenues, a sustained healthy growth in revenues and profitability of the Group, leading to healthy coverage metrics and comfortable liquidity.

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 6.0 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 Rating Approach- Consolidation
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

P.C. Chandra Jewellery Apex Private Limited, a part of the reputed P.C. Chandra Group was incorporated on December 24, 2002, as a private limited company aiming at institutional sale of gold coins, gold bars, and other corporate gift items. In 2004-05, the company expanded into retail sales of gold, silver, and precious stone ornaments and articles. It has established new showrooms almost every year since 2004-05 and has 21 showrooms under its management. Out of these, 17 stores are set up by third-party selling agents and another four are owned by the company itself or through consultants. All showrooms are in Eastern and North-Eastern India, and function under the brand name "P.C. Chandra Jeweller". The institutional sales were shifted to another group company in 2008-09. Approximately 92-93% of PCCJAPL's revenues are generated through sale of

gold jewellery, and the balance through sale of silver and precious stones. The last store was recently added in Midnapore 2 in FY2021. The company plans to add two new showrooms-one in Bishnupur in Q1FY 2023 and another at Alipurduar from Q2-Q3 FY 2023. The company is also searching for 2 more locations for showrooms.

Key financial indicators (audited)

Particulars	PCCJAPL Standalone		P. C. Chandra Group Consolidated	
	FY2021	FY2022	FY2021	FY2022
Operating income	503.93	570.31	1,767.69	2,387.23
PAT	52.21	34.81	192.69	161.28
OPBDIT/OI	14.89%	8.69%	16.8%	10.6%
PAT/OI	10.36%	6.10%	10.90%	6.76%
Total outside liabilities/Tangible net worth (times)	0.79	0.70	0.52	0.48
Total debt/OPBDIT (times)	0.65	1.20	1.16	1.60
Interest coverage (times)	13.35	7.07	9.98	8.07

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022			Date & rating in FY2021	Date & rating in FY2020
					April 06, 2023	Mar 31, 2022	May 04, 2021	Apr 08, 2021	Apr 07, 2020	Apr 05, 2019
1	Long-term – Fund-based – Cash Credit	Long term	25.0	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Short-term – Gold Loan ^	Short term	(20.0)	-	[ICRA]A1	[ICRA]A1	-	-	-	-
3	Short-term – Gold Loan	Short term	10.0	-	[ICRA]A1	[ICRA]A1		-	-	-

^sublimit of cash credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short-term – Gold Loan ^	Simple
Short-term – Gold 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Cash Credit	NA	NA	NA	25.0	[ICRA]A+ (Positive)
NA	Short-term – Gold Loan ^	NA	NA	NA	(20.0)	[ICRA]A1
NA	Short-term – Gold Loan	NA	NA	NA	10.0	[ICRA]A1

Source: Company; ^sublimit of cash credit facility

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Annexure II: List of entities considered for consolidated analysis

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

Priyesh.ruparelia@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

Sumit.jhunjunwala@icraindia.com

Tanmay Chhaparia

+91 33 7150 1100

Tanmay.chhaparia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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