July 04, 2024

M/s. Purushottam Narayan Gadgil: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – working capital facilities	140.00	140.00	[ICRA]A (Stable); Reaffirmed
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the favourable financial risk profile of M/s. Purushottam Narayan Gadgil (PNG or the firm), as characterised by low gearing, healthy debt protection metrics as well as comfortable liquidity position. The rating also takes into account the established market position of PNG in its area of operations (primarily in Sangli and Kolhapur, Maharashtra), along with a track record of more than 190 years in the gold jewellery retail industry. ICRA expects the firm's credit profile to remain comfortable, given the favourable long-term demand outlook for organised jewellery retailers in the country, underpinned by their growing penetration, evolving lifestyle and growing disposable incomes of consumers and cultural affinities. In FY2024, the firm's sales volume moderated by around 15% due to very high prices of gold. However, the higher prices supported the increase of ~8% in revenues to Rs. 1,928.7 crore (as per provisional financials). In the current fiscal, elevated gold prices might impact sales volume to an extent. Nonetheless, the revenues are expected to increase, driven by higher realisations.

The firm, however, remains exposed to geographical and product concentration risks as it generated over 68% of its revenues from the Sangli and Kolhapur markets and 95% of revenues from gold jewellery in FY2024. ICRA notes that the firm plans to open two new stores in FY2025 with total cost of around Rs. 27 crore, which is to be funded through internal accruals; however, they will require additional inventory and funding for the same. While efficient working capital management provides comfort to an extent, the earnings remain vulnerable to fluctuations in gold prices due to lack of formal hedging practices. PNG is also exposed to the risks inherent in partnership firms, including the risk of capital withdrawal. ICRA notes that the partners have been withdrawing ~5-8% of its annual profit after tax (PAT) and expects the trend to continue. The rating also factors in the intense competition in the industry, the fragmented industry structure, and inherent regulatory risks, that may have an impact on the business prospects.

The Stable outlook on the rating reflects ICRA's opinion that the firm will continue to benefit from the extensive experience of the promoters and established market position of the PNG brand in the gold retail business, particularly in south-western Maharashtra.

Key rating drivers and their description

Credit strengths

Longstanding experience of the promoters in the gold jewellery retail business with strong brand equity and market position in Maharashtra – The present partners of the firm have over 40 years of experience in the jewellery retail business with a strong understanding of the local market. The promoters are also instrumental in maintaining a strong relationship with its suppliers and customers, which ensures efficient inventory management. The firm has an established market position with a dominant share in the jewellery retail market of south-western Maharashtra, supported by the vast experience of the promoters, strong brand equity of PNG and its design capabilities. Its retail presence spanning ~190 years has helped in developing a strong brand loyalty in the region.

Favourable long-term demand outlook for organised jewellery retailers – The long-term outlook for the organised jewellery retailers remains favourable, supported by cultural underpinnings, evolving lifestyle and growing disposable income of consumers, favourable demographics and growing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency, higher compliance costs are likely to continue to result in a churn in the unorganised segment, thus benefiting the organised players. The firm is well positioned to tap the incremental demand, given its reputed brand and established market position.

Healthy financial profile –The firm's financial profile is strong, characterised by a low gearing (0.3 times as on March 31, 2024 as per provisional financials), healthy debt protection metrics (interest cover of 10.1 times and total outside liabilities/ inventory of 0.5 times in FY2024 as per provisional financials) and comfortable liquidity position.

Credit challenges

Exposed to geographical and product concentration risks – The firm is exposed to geographical and product concentration risks, as it generated 68% of its FY2024 revenues from the Sangli and Kolhapur markets and earned over 95% of its revenues from gold jewellery sales. However, with an extensive track record, PNG enjoys a strong customer base and market share in its core region, helping it reduce the said risk. ICRA notes that the firm's dependence on the Sangli and Kolhapur markets remains high at present, and with opening of an additional store in Kolhapur, the same is expected to continue.

Profitability susceptible to fluctuations in gold prices – Raw materials constitute over 90% of the operating costs of a gold jewellery retailer. Gold jewellery sales account for 95-96% of the firm's revenues, so its profitability remains susceptible to gold price movements. Further, absence of formal hedging practices aggravates the risk to some extent.

Exposed to regulatory risks as well as risks inherent in partnership firms – The jewellery retail industry has been witnessing increased regulatory intervention in the past few years like compulsory hallmarking requirements, limited access to gold metal loans, mandatory Permanent Account Number (PAN) disclosure requirement beyond the threshold transaction limit, restrictions on jewellery savings schemes, imposition of excise duty, GST implementation etc, which impacted demand and supply in the industry. Moreover, given its constitution as a partnership firm, PNG is exposed to discrete risks, including the limited ability to raise capital and possibility of capital withdrawals by the partners. ICRA notes that the partners have been withdrawing ~5-8% of its annual PAT and expects the trend to continue. Any significant capital withdrawal by the partners could lead to cash flow mismatch and thus remains important from the credit perspective.

Liquidity position: Adequate

The firm's liquidity is adequate with healthy cash accruals from business operations and modest capex plans in the near term. It does not have any principal repayment obligation as the debt comprises working capital debt and deposits from partners and relatives. The company had free cash and bank balance and liquid investments of ~Rs. 16.7 crore as March 31, 2024, and unutilised fund-based working capital facilities of Rs. 80.9 crore on an average during FY2024 (though the year-end buffer was lower at Rs. 40 crore), which provides additional liquidity buffer. Against this, it has a planned capex of ~Rs. 27 crore in FY2025 towards setting up of two new stores in Hubli and Kolhapur.

Rating sensitivities

Positive factors – A sustained growth in the firm's scale of operations and earnings, with improved product mix and higher geographical diversification may trigger a rating upgrade.

Negative factors – Pressure on PNG's rating may arise owing to any large deterioration in the earnings or an increase in the debt levels, thereby impacting its coverage metrics on a sustained basis. Specific trigger for the downgrade would be an interest coverage below 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery - Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financials have been considered

About the company

M/s. Purushottam Narayan Gadgil (PNG) is one of the renowned jewellery retailers in south-west Maharashtra, offering wide varieties of gold, silver and precious gemstone jewelleries. The firm enjoys a 19-decades long legacy of the 'P N Gadgil' brand, established by the Gadgil family, which entered the gold jewellery business in 1832 in Sangli, Maharashtra under the name, Purushottam Narayan Gadgil Jewellers. As on March 31, 2024, the firm had eight stores in south-western Maharashtra and three in Karnataka with an aggregate build-up area of ~44,842 sq. ft. During FY2025, it plans to open two new stores - one in Hubli and another in Kolhapur.

Key financial indicators (audited)

PNG	FY2023	FY2024*
Operating income	1783.5	1928.7
PAT	63.3	82.4
OPBDIT/OI	6.6%	7.8%
PAT/OI	3.5%	4.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.9	0.8
Interest coverage (times)	7.7	10.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
			Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 04, 2024	Jul 17, 2023	May 27, 2022	Aug 05, 2021
1	**Fund-based – working capital facilities**	Long term	140.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Fund-based working capital facilities	Simple

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	**Fund based working capital facilities**	-	8.75-9%	-	140.0	[ICRA]A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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