

September 27, 2024

P. N. Gadgil & Sons Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Cash Credit	317.5	317.5	[ICRA]A+(Stable); reaffirmed
Fixed Deposits	50.0	50.0	[ICRA]A+(Stable); reaffirmed
Short Term – Interchangeable -Others	(55.0)	(55.0)	[ICRA]A1; reaffirmed
Total	367.5	367.5	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in the continued satisfactory financial profile and comfortable liquidity position of P. N. Gadgil & Sons Ltd. (PNGSL). Led by steady growth in revenues and profits from its jewellery segment, the company's dependance on debt has remained limited, translating into healthy debt coverage indicators. Going forward, ICRA expects the financial risk profile of the company to remain comfortable, given the favourable stock rotation level and healthy long-term demand outlook for organised jewellery players, including PNGSL. The ratings continue to derive comfort from its superior brand equity presence in Maharashtra and extensive experience of its promoters. Over the years, PNGSL has established a strong market position in the jewellery retail market and expanded its operations with 28 stores in Maharashtra and one store each in Karnataka and Gujarat.

The ratings are, however, constrained by the company's geographical concentration in Maharashtra, despite expansion in other regions. The company's earnings remain vulnerable to fluctuation in gold prices as raw material cost constitutes about 90% of the operating cost. However, the company follows hedging practices to partly reduce this risk. Though the company's working capital management remains efficient, its sizeable inventory associated with gold deposit schemes (off balance sheet) affects the inventory turnover metrices to some extent. As a result, PNGSL's ratios of total outside liabilities vis-à-vis inventory as well as total outside liabilities vis-à-vis tangible net worth remain key monitorables. The ratings also factor in the intense competition and a fragmented industry structure, which are likely to keep the margins under check. ICRA also notes the inherent regulatory risks in the industry, which impacted the retailers' performance in the past. While PNGSL has long established relationships with customers, the counterparty credit risk remains. However, the cash-and-carry mode of business limits the risk to a large extent.

The Stable outlook reflects ICRA's expectation that PNGSL will continue to benefit from the favourable demand outlook for organised jewellery players and will generate healthy cash flows, relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Long experience of the promoters, strong brand equity and market position in Pune – The promoters as well as the senior management have been instrumental in maintaining strong relationships with its suppliers and other industry participants, which ensure efficient inventory management for the company. Besides, PNGSL has an established market position with a dominant share in the Maharashtra jewellery retail market with presence of over six decades. It has gained strong brand loyalty despite increasing competition in the market.

Favourable long-term demand outlook for organised jewellery retailers – The long-term outlook for organised jewellery players 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 and higher compliance costs are likely to result in a churn in the unorganised segment, thus benefiting the organised players. The company is well positioned to tap the incremental demand, given its reputed brand and established market position.

Healthy financial profile with limited reliance on external debt, low working capital intensity of operations – The company's financial profile is strong, supported by healthy return on capital employed (ROCE) and comfortable debt protection metrics. Owing to a substantial rise in gold prices, increase in sales volume was limited to 6% in FY2025, however, revenues from jewellery increased by around 11% to Rs. 3,621 crore, supported by higher prices. Despite the increase in sales of jewellery, the overall revenues declined by around 16% on a YoY basis to Rs. 8,446.8 crore, owing to decline in bullion trading. The operating margins from the jewellery business remained steady at 5.7-6.0%, which is expected to continue, going forward. However, the overall OPM stood thin at 2.5% in FY2024 due to lower margins of around 0.1% in bullion trading. PNGSL's ROCE stood comfortable at 19.1% in FY2024, increased from 17.5% in FY2023, driven by higher profit. The coverage metrics also remained comfortable with an interest coverage of ~8.6 times in FY2024 and ~14.2 times in Q1 FY2025. These metrics are expected to remain steady, going forward, translating into continued strong financial profile. As inherent in the industry, the company needs to maintain a high inventory level across all its showrooms to display varied designs of jewellery. Nonetheless, PNGSL's working capital intensity stood at ~9% in FY2024 because of the high inventory turnover of over 3.75 times during the last 2-3 years, supported by efficient inventory management practices. Though the company's working capital management remains efficient, its sizeable inventory associated with gold deposit schemes of about 284 kg as on March 31, 2024, (off balance sheet) deteriorates the inventory turnover metrics to some extent. ICRA notes that PNGSL's TOL/Inventory and TOL/TNW remain slightly elevated. Going forward, these will be closely monitored.

Credit challenges

Exposed to geographical concentration risk – The company is exposed to geographical concentration risk as the Maharashtra market (mainly Pune and Nashik) accounted for 97% of its revenues in FY2024, thus making it susceptible to any demand slowdown in the region. PNGSL's established market presence and strong customer base in its core regions help reduce this risk to an extent. Going forward, the trend is expected to continue as most of its showrooms are located in Maharashtra. Moreover, the new stores are also planned in the same state, which will further concentrate its revenues in Maharashtra.

Profitability susceptible to fluctuation in gold prices – As common in the retail jewellery business, raw materials constitute over 90% of the operating cost. Gold jewellery sales account for 80-90% of the company's jewellery revenues, so its profitability remains susceptible to gold price movements. However, hedging practices adopted by the management reduce this risk to an extent.

Exposure to regulatory risks – Increased regulatory intervention in the jewellery industry in the recent years has impacted demand and supply. Measures like 20/80 restriction on imports, mandatory PAN disclosure requirement for purchases above the threshold limit, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty, demonetisation, among others, have impacted the industry's operations in the past. Increasing supervision by regulators and a cautious lending environment further restricted fund flows to the sector, thus hampering the store expansion plans and liquidity profile of the retailers.

Liquidity position: Adequate

PNGSL's liquidity is adequate with steady cash flow from operations, modest capex plans in the near term and low long-term debt repayment obligations. The capex is envisaged to be around Rs.40 crore in FY2025 and Rs.20.0 crore in FY2026. It plans to open a new store in Talegaon, Maharashtra and is also expanding its Solapur (Maharashtra) showroom with a total capex of around Rs. 40 crore, which will be funded through internal accruals in FY2025. Against this capex, the company had cash and liquid investment of ~Rs. 159.2 crore and unutilised working capital limits of Rs. 245 crore as on June 30, 2024, which

provide additional comfort to the liquidity. Besides, ICRA estimates that the capex plans for opening new store and expansion of existing store in FY2025 will result in additional inventory requirement of Rs.30-35 crore in FY2025, which will be funded through internal accruals. Moreover the company has debt repayment of Rs. 17.5 crore in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade PNGSL’s ratings if the company is able to significantly increase its sales volumes in the jewellery business, while maintaining its profit margins. Specific credit metrics that could lead to ratings upgrade include total outside liabilities vis-à-vis the tangible net worth of less than 0.75 times on a sustained basis.

Negative factors– The ratings could be downgraded if a substantial increase in the working capital requirements results in elevated level of debt, leading to a deterioration in the capital structure and debt coverage indicators. Specific credit metrics that could lead to ratings downgrade include weakening of total outside liabilities vis-à-vis the tangible net worth to more than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Jewellery-Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the entity.

About the company

PNGSL is involved in retail sale of gold, silver and diamond studded jewellery along with bullion trading. The company enjoys a long legacy of the P N Gadgil brand, which is more than 190 years old. The same was established by the Gadgil family members, who entered the gold jewellery business in 1832 at Sangli, Maharashtra under the name of Purushottam Narayan Gadgil Jewellers. As on June 30, 2024, the company has 30 stores of which 28 are in Maharashtra, and one store each in Karnataka and Gujarat, with an aggregate carpet area of 1,05,364 sq. ft. The day-to-day activities are managed by CEO-Director, Mr. Amit Modak, who has vast experience of more than 25 years in the retail jewellery business. Other promoters and Whole-time director, Mr. Govind Gadgil also has over 40 years of experience in the field.

Key financial indicators (audited)

	FY2023	FY2024	Q1 FY2025
Operating income	10,116.1	8,446.8	1,751.6
PAT	111.6	135.6	66.0
OPBDIT/OI	1.9%	2.5%	5.5%
PAT/OI	1.1%	1.6%	3.8%
Total outside liabilities/Tangible net worth (times)	1.3	1.1	1.1
Total debt/OPBDIT (times)	2.3	2.1	1.2
Interest coverage (times)	6.7	8.6	14.2

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 year			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Sep 27,2024	Date	Rating	Date	Rating	Date	Rating
Fixed deposit	Long Term	50.00	[ICRA]A+ (Stable)	05-SEP-2023	[ICRA]A+ (Stable)	26-MAY-2022	[ICRA]A+ (Stable)	07-OCT-2021	[ICRA]A+ (Stable)
				-	-	16-SEP-2022	[ICRA]A+ (Stable)	02-NOV-2021	[ICRA]A+ (Stable)
Long term-cash credit-fund based	Long Term	317.50	[ICRA]A+ (Stable)	05-SEP-2023	[ICRA]A+ (Stable)	26-MAY-2022	[ICRA]A+ (Stable)	07-OCT-2021	[ICRA]A+ (Stable)
				-	-	16-SEP-2022	[ICRA]A+ (Stable)	02-NOV-2021	[ICRA]A+ (Stable)
Short term-others-interchangeable	Short Term	55.00	[ICRA]A1	05-SEP-2023	[ICRA]A1	26-MAY-2022	[ICRA]A1	07-OCT-2021	[ICRA]A1
				-	-	16-SEP-2022	[ICRA]A1	02-NOV-2021	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short -term – Interchangeable – Others	Simple
Long-term – Fixed Deposit	Very 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	Long-term- Fund Based – Cash Credit	-	-	-	317.5	[ICRA]A+(Stable)
NA	Short term - Interchangeable – Others	-	-	-	(55.0)	[ICRA]A1
NA	Fixed Deposit	-	7.5%	-	50.0	[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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Branches



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