

April 07, 2020

P.C. Chandra (Jewellers) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	25.00	25.00	[ICRA]A (Stable); Reaffirmed
Working Capital Demand Loan**	(25.00)	(25.00)	[ICRA]A (Stable); Reaffirmed
Gold Loan**	(25.00)	(25.00)	[ICRA]A1; Reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-1;

** sub-limit 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, 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)), 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)) , 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 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 ratings also take into consideration the Group's favourable financial risk profile, reflected by a healthy return on capital employed, a conservative capital structure and strong debt coverage indicators. However, closure of retail stores across the country due to the lockdown announced by the Government following the outbreak of COVID-19, ahead of the Akshaya Tritiya season, is a credit negative for the gold jewellery retail industry in the short term, which would also have an impact on the Group's top line and profit in FY2021. Nevertheless, in the medium to long term, the demand outlook remains favourable for organised jewellery retailers given their growing penetration, evolving lifestyle, growing disposable income and cultural underpinning.

The ratings, however, remain constrained by the high working capital intensity of the Group's operations given the high inventory holding. Although high gold inventory provides liquidity back-up to an extent, the same also exposes P.C. Chandra Group's profit margins to gold price fluctuations. Additionally, the Group continues to remain exposed to geographical concentration risks with 37 out of its 46 showrooms and one mall stop located in West Bengal. The ratings also factor in the intense competition and fragmented industry structure, which are likely to keep margins under check. ICRA also notes the inherent regulatory risks in the industry, which impacted the retailers' performance in the past.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectation that the Group will continue to 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 linkage 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 large 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.

Favourable financial risk profile reflected by healthy return on capital employed, conservative capital structure and strong debt coverage indicators – The Group's turnover as well as operating and net profits at an absolute level improved in FY2019 due to an increase in the average realisations. Further an increase in average gold prices in FY2020 is likely to positively impact the Group's profitability. Healthy profits at an absolute level led to a healthy return on capital employed (16.40% in FY2019) of the Group. The Group's consolidated capital structure continued to remain conservative due to limited borrowing vis-a-vis its strong net worth (Rs. 706.69 crore as on March 31, 2019 on a consolidated basis), as reflected by a gearing of 0.34 times as on March 31, 2019. 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 1.65 times, an interest coverage of 6.03 times and net cash accrual relative to total debt of 36% in FY2019.

Favorable demand outlook for organised jewellery retailers over the medium to long term; though short-term demand outlook of the sector remains subdued due to the Covid-19 outbreak – Jewellery consumption in India has been traditionally driven by strong cultural affinity for gold, with gold being the preferred form of jewellery. Stable wedding and festive demand along with a growing disposable income are likely to keep the demand sentiments strong in the medium to long term. While the demand-supply metrics remain vulnerable to any policy initiatives of the Government, these regulations have resulted in faster formalisation of the sector, thus supporting organised retailers like the P. C. Chandra Group. However, ICRA notes that the widened outbreak of COVID-19 and the subsequent lockdown ahead of the Akshaya Tiritiya is a credit negative for the gold jewellery retail industry in the short term. The revenues will be impacted due to closure of the stores during the lockdown period and recovery in demand post the lockdown is likely to be slow and gradual, given jewellery is a non-essential product. This, coupled with relatively stable fixed costs in the form of employee payouts and rentals are likely to negatively impact profits and cash flows of the jewellery retailers in the near term.

Credit challenges

High inventory required to support its operations 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, high inventory level of the Group of more than seven months, as on March 31, 2019, on account of various designs of ornaments maintained at a large number of stores, results in high working capital intensity of operations and simultaneously exposes the Group's profit margins to fluctuations in gold prices.

Exposure to geographical concentration risk, with large number of stores present across West Bengal –The jewellery segment of the P. C. Chandra Group has 46 showrooms and one mall stop under its management, of which 37 showrooms and the mall stop are located in West Bengal and the balance nine stores in different cities with one each in New Delhi, Mumbai, Noida, Jamshedpur, Agartala, Bhubaneswar and Ranchi and two in Bangalore. Thus, the Group is primarily a regional player, with presence mainly 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, which impacted the operating environment and consequently the performance of jewellers. Measures like mandatory Permanent Account Number disclosure requirement for purchases above a certain amount, limitation of jewellery savings scheme, imposition of excise duty, demonetisation drive, implementation of the Goods and Service Tax etc. impacted both demand and supply. Increasing supervision had affected the sector's overall performance in the recent

years, to an extent, though the unorganised players were impacted more compared to the organised players like the P. C. Chandra Group. Nonetheless, the cautious lending environment had negatively impacted the fund flow to the sector.

Liquidity position: Adequate

The P.C. Chandra Group's liquidity is **adequate**. The Group's consolidated fund flow from operations continued to remain healthy (around Rs. 84 crore in FY2019) though the cash flow from operations stood at a negative level in FY2019 due to a significant increase in working capital requirement. Nevertheless, the Group's sizeable cash balance (Rs. 30.65 crore on a consolidated basis as on March 31, 2019) and significant funding support in the form of unsecured borrowings from the promoters are likely to support its liquidity position. Addition of stores to enhance market presence is likely to entail a moderate capital expenditure by the Group on a regular basis. Nevertheless, such capital expenditure is likely to be funded internally. The average utilisation of the sanctioned fund-based working capital limit (interchangeable with non-fund-based-limit) remained moderate at 62% during January-October 2019. Such cushion in working capital utilisation, absence of long-term debt repayment obligation and the Group's highly liquid gold inventory of Rs. 953.32 crore (3.93 times of total debt as on March 31, 2019) as on March 31, 2019 are likely to keep its liquidity adequate.

Rating sensitivities

Positive triggers – ICRA may upgrade the P. C. Chandra Group's ratings if a substantial growth in sales volume results in an increase in turnover, profits and cash accruals and better working capital management improves the stock turnover ratio of the Group, strengthening the financial risk profile.

Negative triggers – Pressure on the P. C Chandra Group's ratings may arise if profitability is significantly impacted by an adverse movement in gold prices, or if the demand scenario remains subdued for a prolonged period due to the COVID-19 outbreak. A significant increase in the inventory holding requirement because of sizeable store expansion may adversely impact the Group's liquidity, leading to a rating downgrade. Specific credit metrics that may trigger a rating downgrade include interest coverage ratio of less than 4 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 Financial Consolidation and Rating Approach
Parent/Group Support	Not Applicable
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 jewellery is produced through job work and is sold to retail clients from the company's six showrooms, of which four are located in West Bengal and one each in Mumbai and Ranchi. The four showrooms in West Bengal are located at Gariahat, Golpark, Howrah, and Baruipur.

Key financial indicators (audited)

Consolidated*	FY2018	FY2019
Operating Income (Rs. crore)	1709.16	1815.24
PAT (Rs. crore)	73.15	82.10
OPBDIT/OI (%)	8.09%	8.11%
RoCE (%)	16.96%	16.40%
Total Outside Liabilities/Tangible Net Worth (times)	0.37	0.34
Total Debt/OPBDITA (times)	1.65	1.65
Interest Coverage (times)	5.58	6.03
DSCR	4.12	4.59

*The financials of six Group companies have been consolidated by ICRA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018		
					7-Apr-2020			5-Apr-2019	5-Mar-2018	15-Nov-2017
1	Cash Credit	Long Term	25.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable) ISSUER NOT COOPERATING**	[ICRA]A- (Stable)
2	Working Capital Demand Loan*	Long Term	(25.00)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable) ISSUER NOT COOPERATING**	[ICRA]A- (Stable)
3	Gold Loan*	Short Term	(25.00)	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A2+	[ICRA]A2+ ISSUER NOT COOPERATING**	[ICRA]A2+

*Sub-limit of cash Credit; **due to non-submission of NDS
Amount in Rs. Crore

Complexity level of the rated instrument

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	25.00	[ICRA]A (Stable)
NA	Working Capital Demand Loan*	NA	NA	NA	(25.00)	[ICRA]A (Stable)
NA	Gold Loan*	NA	NA	NA	(25.00)	[ICRA]A1
Total					25.00	

*Sub-limit of cash Credit

Source: P.C. Chandra (Jewellers) Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
P. C. Chandra Gems Private Limited	-	Full Consolidation
P. C. Chandra Sons (India) Pvt Ltd	9.99%	Full Consolidation
P. C. Chandra Jewellery Apex Private Limited	-	Full Consolidation
Goldlites India Private Limited	-	Full Consolidation
P. C. Chandra Juels International Private Limited	-	Full Consolidation

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