ICRA

March 22, 2017

P.C. Chandra Gems Private Limited

Name of the instrument	Amount (in Rs. Crore)	Rating Action
Rated on Long-term scale		
Fund Based Limit – Cash credit facility	30.00 (increased from Rs. 25.00 crore)	[ICRA]A- (Stable) re-affirmed

Instrument Details are provided in Annexure-1

Rating Action

ICRA has re-affirmed the long-term rating of **[ICRA]A- (pronounced ICRA A minus)** to the Rs. 30.00-crore[1] (increased from Rs. 25.00 crore) fund-based cash-credit facilities of P.C. Chandra Gems Private Limited (PCGPL)[2]. The outlook on the long-term rating is **Stable**.

Detailed rationale

The rating reaffirmation takes into account the significant market presence of the P.C. Chandra Group, its strong brand image and the established position of its promoters in the business of jewellery manufacturing and retailing, particularly in West Bengal. The ratings also take into consideration PCCGPL's comfortable capital structure as reflected by a gearing of 0.89 times as on March 31, 2016.

The rating however, also takes into account the moderate scale of the company's current operations along with the expected decline in the company's total sales volume during FY2017, despite launch of two showrooms in January 2016 and July 2016, mainly due to de-growth of around 30-40% from the existing stores. The decline in sales volumes were due to headwinds from weak rural demand, volume impact on the back of industry-wide strike against the imposition of excise duty on gold jewellery in March, 2016 and demonetisation of high-value currency which adversely impacted the sales volume particularly in November and December 2016. However, increase in gold prices is likely to support the turnover and profits during FY2017 to some extent. The ratings are further constrained by the high working capital intensity of PCCGPL's operations given the high gold inventory required to support its business model. Although high gold inventory provides an additional liquidity back-up, the same also exposes PCCGPL's profit margins to gold price fluctuations. Additionally, PCCGPL is exposed to geographical concentration risks with four of its showrooms located in West Bengal and one each in New Delhi and Noida. The rating also factors in the intense competition present in the sector, which is likely to keep margins under check.

Going forward, the company's ability to improve its sales volume and increase profits from the existing as well as new stores would remain the key rating sensitivities.

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

Key rating drivers
Credit strengths

- ➢ Significant market presence and established position of the P.C. Chandra Group, particularly in West Bengal
- ➢ Comfortable capital structure as reflected by a gearing of 0.89 times as on March 31, 2016; gold inventory provides additional liquidity back-up

Credit weaknesses

- ➢ Moderate scale of current operations along with significant de-growth in sales volume from existing stores
- ➢ High working capital intensity of operations, given the high inventory level required to support operations
- ➢ Exposure of profitability to risks arising from gold price fluctuation
- ➢ Exposure to geographical concentration risks with four showrooms located in West Bengal and one each in New Delhi and Noida

Detailed description of key rating drivers highlighted above:

The company is into the retail sale of gold, silver, and precious stone ornaments and articles. The brand "P.C. Chandra Jeweller", under which jewellery is retailed by the group, has considerable goodwill in Eastern India which, given the importance of trust and retailer's reputation in jewellery purchase decision, has strengthened the group's market standing. However, PCCGPL's presence in the North India is restricted to only two showrooms in Delhi and Noida. Historically, PCCGPL has generated most of its revenues from sales of gold and gold ornaments. PCCGPL has six of the group's 31 showrooms under its management, of which four are located in West Bengal and two in north India. The company's two of the oldest and largest showrooms are located in Ultadanga area of Kolkata, attributing to around 75% of the company's total sales in FY2016. Sales from the company's existing stores witnessed a significant decline of around 30-40% during April-December 2016 compared to the total sales during the corresponding period in the previous year. However, two new stores in Noida and Rajarhat supported the sales volume of the company to an extent. Improved realisations resulting from gold price hike particularly is likely to provide additional support to the turnover of the company. PCCGPL purchases gold on a daily basis at the prevailing market rate, with the intention of replenishing stock depleted by the previous day's sales. Therefore, exposure to risks associated with gold price fluctuations is limited to the company's inventory carrying period. PCCGPL has maintained a high average gold inventory of 5-6 months over the last five years to support its operations. This exposes the company to risks arising from gold price fluctuations during the inventory carrying period.

The operating income of the company has remained flat over the last two years. The operating profitability of the company declined significantly from 7.82% in FY2015 to 5.65% in FY2016, on account of rise in employee costs and other overhead expenses. However, the same is expected to improve to some extent during FY2017 on the back of rise in gold prices. The capital structure of the company remained comfortable as reflected by a gearing of 0.89 times as on March 31, 2016. However, increase in debt levels along with decline in operating profit margins resulted in significant deterioration of the company's debt coverage indicators as reflected by an interest cover of 2.28 times and NCA/TD of 8% in FY2016 compared to an interest cover of 3.71 times and NCA/TD of 19% during FY2015. The working capital intensity of the company's operations although remained high historically, has increased further in FY2016 as reflected by an NWC/OI of 50%.

Analytical approach: For arriving at the ratings, ICRA has consolidated the financials of PCCGPL along with other ICRA-rated group entities – P.C. Chandra & Sons (India) Private Limited {Rated at [ICRA]A (Stable)/[ICRA]A1}, P.C. Chandra Juels International Private Limited {Rated at [ICRA]A- (Stable)/[ICRA]A2+}, P.C. Chandra Jewellery Apex Private Limited {Rated at [ICRA]A- (Stable)} and Goldlites India Private Limited {Rated at [ICRA]A- (Stable)/[ICRA]A2+}; which are in similar line of business and are under a common management.

Links to applicable criteria

Rating Methodology for Gold Jewellery Retail Industry
Corporate Credit Rating –A Note on Methodology

About the company:

P.C. Chandra Gems Private Limited, a part of the reputed P.C. Chandra Group, was founded on January 23, 2001 (though the group has been into jewellery retailing since 1939) and is into the manufacturing and sales (both institutional and retail) of gold, silver, and precious stone ornaments and articles. However, institutional sales have been reduced gradually and the segment was hived off to a group company in April 2013. The jewellery is produced through job work and sold to retail clients from the company's four showrooms, of which two are located in the Ultadanga area of Kolkata, one in Kanchrapara and one in Chittaranjan Park, New Delhi, under the brand name "P.C. Chandra Jeweller". The company has also started two new showrooms – one in Noida on January 31, 2016 and one in Rajarhat on July 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	January 2016	March 2015	December 2013
1	Fund Based	Long Term	30.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund-based limits	-	-	-	30.00	[ICRA]A- (Stable)

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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