

P. C. Chandra Gems Private Limited

March 05, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	30.00	30.00	[ICRA]A- (Stable) Reaffirmed
Total	30.00	30.00	

Rating action

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

Rationale

For arriving at the ratings, ICRA has consolidated the financials of PCCGPL along with other ICRA-rated Group entities – P.C. Chandra Juels International Private Limited, P.C. Chandra & Sons (India) India Private Limited, P.C. Chandra Jewellery Apex Private Limited, P.C. Chandra Jewellers Private Limited and Goldlites India Private Limited; which are in similar line of business and are under a common management.

The ratings reaffirmation takes into account the significant market presence of the P.C. Chandra Group (all six companies mentioned above), 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 P.C. Chandra Group's favorable financial risk profile, reflected by a healthy return on capital employed, conservative capital structure and comfortable debt-coverage indicators during FY2017.

The ratings, however, also take into account the decline in sales volume of most of the existing stores during FY2017 due to industry-wide strike against the imposition of excise duty on gold jewellery in March, 2016- April 2016 and demonetisation of high-value currency in November, 2016. However, addition of six new stores at a Group level during FY2017 along with increase in average gold rates during the year has supported the turnover and profits of the Group in FY2017. Nonetheless, the ratings continue to factor in the high working capital intensity of the Group's operations given the high gold inventory required to support its business model. 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 thirty-four out of its thirty-nine showrooms located in West Bengal, and presence of one store each in Delhi, Mumbai, Noida, Bangalore, Jamshedpur, Agartala and Bhubaneswar. The rating also factors in the intense competition present in the sector, which is likely to keep margins under check. Going forward, the ability of the companies to improve its sales volume and increase profits from the existing stores would remain key rating sensitivities.

Outlook: Stable

ICRA believes PCCGPL will continue to benefit from the extensive experience of the promoters and established market presence of the P.C.Chandra Group. The outlook may be revised to 'Positive' if substantial growth in sales volume from existing stores results in increase in profitability and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if significant adverse movement in gold price impacts the profits of the company or decline in sales volume or increase in inventory holding period.

Key rating drivers

Credit strengths

Long market presence and established goodwill of the P.C. Chandra Group in West Bengal; operational linkages with the Group supports its market position - The P.C. Chandra Group has been in the gems and jewellery business since 1939. Over the past 7 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 retailer reputation in jewellery purchase decisions. Even though the jewellery industry in India is highly competitive with stiff competition from both organized players as well as unorganized players, the P.C. Chandra Group has held its own position through superior product quality as well as creative designs.

Favourable financial risk profile reflected by healthy return on capital employed, conservative gearing and comfortable debt-coverage indicators – The Group's financial risk profile remains favourable, supported by healthy return on capital employed, conservative gearing and comfortable debt-coverage indicators. PCCGPL, on a standalone basis also has a healthy return on capital employed at 17.09%, conservative capital structure and comfortable debt-coverage indicators, reflected by gearing of 0.68 times, TD/OPBDITA of 2.38 times and an interest cover of 3.35 times during FY2017. The Group witnessed a significant increase in its operating profits during FY2017, however, a portion of such increased profits is on account of inventory gains arising due to rise in gold prices during the year. With stable gold prices during the current year compared to the previous year, inventory gains/losses are expected to remain minimal in FY2018.

Credit challenges

Decline in sales volume from most of the existing stores in FY2017 – Historically over 90% of the group's turnover are from sale of gold and gold ornaments, thus decline in sales volume of gold in FY2017 by around 9% year-on-year adversely impacted the turnover and profits of the Group. Nonetheless, increase in gold realisations by around 13% supported the turnover and profits of the Group in FY2017. While most of the Group's existing stores witnessed a decline in sales volume on account of industry-wide strike due to imposition of excise duty in March 2016 - April 2016 and demonetisation of high value currency in November 2016, addition of six new stores at a Group level supported the gold sales volume to an extent. The gold sales volume of the PCCGPL also declined by around 10.7% in FY2017, despite the addition of one store each in January 2016 and July 2016 in Noida and Rajarhat, respectively; on account of significant decline in sales from existing stores.

High inventory levels required to supports its operations increases working capital requirement and exposes the Group to volatility in gold prices; gold inventory although provides liquidity backup to an extent – P.C.Chandra Group purchases gold on a regular basis, after sale of certain quantities at the prevailing market rate. 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 around seven months, as on March 31, 2017 on account of various designs of ornaments maintained at large number of stores, results in high working capital intensity of its operations and simultaneously exposes the Group's profit margins to fluctuations in gold prices. However, gold inventory provides liquidity back-up to an extent.

Exposure to geographical-concentration risks, with large number of stores present across West Bengal – The jewellery segment of P.C.Chandra Group has thirty-nine showrooms under its management, of which thirty-four stores are located in West Bengal and seven stores are located in different cities with one store each in Mumbai, Noida, Delhi, Bangalore, Jamshedpur, Bhaubaneswar and Agartala. Thus, the group’s regional presence is primarily limited to West Bengal, which exposes it to significant geographical concentration risks. With plans to add new stores in and outside of West Bengal, the market presence of the group is expected to increase over the next two-three years.

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)}, P.C. Chandra Jewellers Private Limited {Rated at [ICRA]A- (Stable)/[ICRA]A2+} 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:

[Corporate Credit Rating Methodology](#)
[India Gems and Jewellery Industry](#)

About the company:

P. C. Chandra Gems Private Limited (PCCGPL), incorporated on January 23, 2001 (though the Group has been into jewellery retailing since 1939), is a part of the reputed P.C. Chandra Group. The company manufactures and sells gold, silver, precious-stone ornaments and articles. Earlier the company was involved in institutional sales as well, however, the same has 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. The company has six showrooms of which two are located at the Ultadanga area of Kolkata, one at Kanchrapara and one at 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 at Rajarhat on July 31, 2016.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	226.76	235.49
PAT (Rs. crore)	4.54	9.78
OPBDIT/ OI (%)	12.81	21.13
RoCE (%)	11.30%	17.09%
Total Debt/ TNW (times)	0.89	0.68
Total Debt/ OPBDIT (times)	4.48	2.38
Interest Coverage (times)	2.28	3.35
NWC/ OI (%)	50%	45%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) As on March 31, 2017	Date & Rating March 2018	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 December 2015	Date & Rating in FY2015 -
1 Cash credit	Long Term	30.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(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: 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	27.04.2017	9.55%	-	30.00	[ICRA]A- (Stable)

Source: P. C. Chandra Gems Private Limited

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