

May 04, 2021

P. C. Chandra Jewellery Apex Private Limited: [ICRA]A+ (Stable) assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	15.00	25.00	[ICRA]A+ (Stable); assigned/outstanding
Total	15.00	25.00	

*Instrument details are provided in Annexure-1

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 upgrade in the long-term rating primarily considers a sharp improvement in profitability expected in FY2021, supported by higher gold realisations. Higher realisations resulted in high inventory profits despite a decline in gold sales volume and turnover owing to the pandemic-induced lockdown in its key markets and reduction in discretionary spending by customers amid elevated gold prices. Despite opening of five new stores in FY2020, the Group registered a 7% volume decline in sales of gold due to subdued demand condition vis-a-vis FY2019. However, the Group's top line increased by ~8.5% and its operating profit margin expanded by 2.15% in FY2020 due to higher gold realisations compared to the previous fiscal. The ratings also consider the Group's favourable financial risk profile, reflected by a conservative capital structure, strong debt coverage indicators and a healthy return on capital employed (ROCE). 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 proposed restructuring (expected to be completed shortly), with merger of jewellery operations of all the eight jewellery companies within the Group (PCCSIPL, PCCGPL, PCCJIPL, PCCJPL, PCCJAPL, GIPL, D I Jewels Private Limited and P. C. Chandra Global Jewellery Private Limited) to a single company, P. C. Chandra Holding Private Limited (PCCHPL), will result in a simplified ownership structure as 100% shareholding of PCCHPL is with the P.C.C. Foundation (a trust) with members of the Chandra family as trustees. The composite scheme of consolidation has been approved on October 9, 2020 with effective date of January 11, 2021. ICRA expects the financial risk profile of the Group to remain comfortable given the favourable long-term demand outlook for organised jewellery retailers with their growing penetration, evolving lifestyle, growing disposable income and cultural underpinning.

The ratings are, however, 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 the Group's profit margins to gold price fluctuations. Additionally, the Group continues to remain exposed to geographical concentration risks with 40 out of its 49 showrooms (including one mall stop) located in West Bengal. The ratings also factor in the intense competition and a fragmented industry structure, which are likely to keep margins under check. ICRA also notes the inherent regulatory risks in the gems and jewellery industry (which impacted the retailers' performance in the past) and a cautious lending environment, constraining the funding to the sector.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that the Group will be able to maintain its business position and 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 linkages 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 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. Additionally, the recent approval for consolidation of Group entities with jewellery operations to a single company, PCCHPL, will result in simplification of the structure.

Favourable financial risk profile characterised by conservative capital structure, strong debt coverage indicators and healthy return on capital employed – The Group's turnover as well as operating and net profits at an absolute level improved in FY2020 mainly due to an increase in the gold realisations despite a 7% decline in gold sales volume. A significant increase in gold prices in FY2021 (despite some moderation in prices during the last three months) is likely to lead to a sharp improvement in the Group's profitability in FY2021, aided by a substantial inventory gain as the Group was holding significant stock in its books. Healthy profits at an absolute level led to a healthy return on capital employed (19.1% in FY2020) of the Group and the same is likely to improve further in FY2021. The Group's capital structure continued to remain conservative due to limited borrowing vis-a-vis its strong net worth (Rs. 833.7 crore as on March 31, 2020 on a consolidated basis), as reflected by a gearing of 0.3 times as on March 31, 2020. 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 1.3 times, an interest coverage of 7.6 times and net cash accrual relative to total debt of 49.1% in FY2020. ICRA expects the debt coverage metrics of the Group to improve further in FY2021 on the back of an expected improvement in profitability.

Favourable long-term demand outlook for organised jewellery retailers – While the elevated gold prices and the Covid-19 effect on discretionary spending will impact the near-term gold jewellery demand, the long-term outlook 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, need for social distancing and higher compliance costs are likely to result in a churn in the unorganised segment, thus benefiting the organised players. The P. C. Chandra Group is well positioned to tap the incremental demand, given its reputed brand and established market position.

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 eight months, as on March 31, 2020, 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, and remains a key rating concern. The inventory holding stood on the higher side as on March 31, 2020 due to lower sales in March 2020 owing to the pandemic-induced lockdown from March 23, 2020.

Exposure to geographical concentration risk, with large number of stores present across West Bengal – The jewellery segment of the P. C. Chandra Group has 49 showrooms including one mall stop under its management. Among these, 39 showrooms and the mall stop are located in West Bengal and the balance nine stores are located in different cities with one each in New Delhi, Mumbai, Noida, Jamshedpur, Agartala, Bhubaneswar and Ranchi and two in Bangalore. 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 in the recent years, which impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to gold metal loans, mandatory Permanent Account Number (PAN) disclosure requirement beyond the threshold transaction limits, restrictions on jewellery saving schemes, imposition of excise duty, increase in import duty, demonetisation, GST implementation etc. had affected both demand and supply. Increasing supervision and cautious lending environment further restrict the fund flows to the sector, thus hampering the store expansion plans of retailers. With India importing a bulk of its gold and silver requirements, the recent decision of the finance ministry to rationalise the import duty on gold and silver to 7.5% from 12.5% earlier, is expected bring down the prices going forward.

Liquidity position: Adequate

The P.C. Chandra Group's liquidity is **adequate**. The Group's consolidated fund flow from operations improved to Rs. 132.34 crore in FY2020 from Rs. 83.95 crore in the previous year on the back of increased profit. Its liquidity position remains comfortable with sizeable cash balance (Rs. 47.07 crore on a consolidated basis as on March 31, 2020) and significant funding support in the form of unsecured borrowings from the promoters. Addition of stores to enhance market presence is likely to entail a moderate capital expenditure and 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 59% during April-November 2020. Such cushion in working capital utilisation, absence of long-term debt repayment obligation and the Group's highly liquid gold inventory of Rs. 914.67 crore (3.41 times of total debt as on March 31, 2020) as on March 31, 2020 are likely to keep its liquidity adequate.

Rating sensitivities

Positive Factors – ICRA may upgrade the P. C. Chandra Group's ratings if the Group demonstrates a substantial growth in its scale of operations and earnings and better inventory management along with significant geographical diversification. Specific credit metrics that may lead to an upgrade of ratings include return on capital employed of 20% on a sustained basis.

Negative Factors – Pressure on the P. C. Chandra Group's ratings may arise if its profitability is significantly impacted by an adverse movement in gold prices, or if the demand scenario remains subdued. 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 5 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

PCCJAPL, a part of the reputed P.C. Chandra Group, was incorporated in 2002. 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 20 showrooms, out of which four are owned by the company or managed through consultants, and 16 are owned and

run by the selling agents. All showroom-related expenses are borne by the selling agents, whereas all jewellery-related revenues and expenses, including credit card commission and advertising, are recognised in the books of PCCJAPL. The company's two showrooms are in Agartala and Bhubaneswar, and the remaining in West Bengal.

Key financial indicators (audited)

P. C. Chandra Group Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1815.2	1970.1
PAT (Rs. crore)	82.1	125.7
OPBDIT/OI (%)	8.1%	10.3%
PAT/OI (%)	4.5%	6.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/OPBDIT (times)	1.6	1.3
Interest Coverage (times)	6.0	7.6

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	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 4, 2021	April 8, 2021	April 7, 2020	April 5, 2019	-
1	Cash Credit	Long-term	25.00	-	[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	Fund-Based-Cash Credit	-	-	-	25.00	[ICRA]A+(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	PCCJAPL Ownership	Consolidation Approach
P. C. Chandra & Sons India Pvt Ltd	-	Full Consolidation
Goldlites India Private Limited	9.00%	Full Consolidation
P. C. Chandra Gems Private Limited	17.28%	Full Consolidation
P.C. Chandra (Jewellers) Private Limited	-	Full Consolidation
P. C. Chandra Juels International Private Limited	30.00%	Full Consolidation

Source: Annual reports of FY2020

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