M/s. Purushottam Narayan Gadgil

April 02, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Cash Credit	40.0	[ICRA]A- (Stable); Assigned
Total	**40.0**	

Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into consideration M/s Purushottam Narayan Gadgil's ('PNG Sangli' or 'the firm') long standing presence in the domestic gold jewellery retail industry, its superior brand equity and vast experience of promoters. Over the years, the firm has established a strong market position in the jewellery retail market of Sangli and Kolhapur city of Maharashtra along with spreading its presence in eight other cities and towns in Maharashtra and Karnataka. Thoughtful geographical expansion over the years has aided volume and revenue growth while maintaining adequate profitability. The same is likely to support the revenue growth of the firm going forward as well. The assigned rating also factors in the healthy capital structure and debt protection metrics of the firm owing to healthy net worth position, adequate accruals and low debt levels. The working capital intensity also remains lower than most of the industry peer as well as industry average. The liquidity position also remains comfortable supported by absence of long term debt repayment obligations, no major capex plans in the near term as well as adequate buffer available in the working capital limits with respect to drawing power. The rating also considers the increasing formalisation of the industry in recent years favoring organised trade underpinned by the strong cultural affinity and growing disposable income of the households. PNG Sangli, being one of the organised players in its addressable market segment, continue to benefit from the same.

The rating is however constrained by relatively high geographical concentration on the Sangli and Kolhapur market despite the expansions in other regions of Maharashtra and Karnataka over the years. The rating also factors in the modest margins inherent in the business. The firm's earnings remain vulnerable to fluctuation in gold prices due to lack of formal hedging practices, given the raw material cost constitutes over 90% of the operating cost. The firm also remains exposed to risks inherent in partnership firms, including the risk of capital withdrawal. The interest coverage indicator remains moderate due to high interest expenses associated with the partner's fixed capital. Though the working capital management of the firm remains efficient, sizeable inventory associated with gold deposit schemes impacts the inventory turnover to some extent. The rating also remains constrained by the increasing regulatory supervision and the current cautious lending environment which is expected to restrict fund flows in the retail jewellery sector over the short term.

Outlook: Stable

ICRA expects the firm to witness ~9-10% revenue growth in FY2020 as against the estimated industry growth of 5-6% driven by healthy revenue contribution from the new stores added in the past two fiscals. Further adequate gold jewellery demand, the firm's established customer base and considerable goodwill will continue to support the revenue growth in long term. The outlook may be revised to 'Positive' if the firm's financial risk profile improves considerably, primarily in the areas of profitability through prudent product mix. Improvement in the credit profile will also remain critical for an upward revision in the outlook. The outlook may be revised to 'Negative' if the firm's capital structure and coverage indicators deteriorates considerably from the current levels. Further lower than expected performance of the new stores may weaken the financial risk profile and put downward pressure on the rating.

Credit strengths

Strong brand equity, market position and increasing geographical presence – Supported by the vast experience of the promoters, the strong brand equity of PNG and its design capabilities, the firm has an established market position with a dominant share in the jewellery retail market of South Western Maharashtra – mainly Sangli and Kolhapur which has contributed ~85- 90% of the firm's revenues over the years. Its retail presence of over 187 years has helped in developing strong brand loyalty in the region. While the firm's dependence on Sangli and Kolhapur market remains high at present, it is expected to come down over the medium term with the firm's steady expansion across new geographies in Maharashtra and the adjoining states undertaken in the recent past and proposed going forward.

Financial profile characterised by healthy capital structure and the debt coverage indicators - Healthy networth position coupled with low debt levels due to absence on long term loans resulted in healthy capital structure of the firm over the years. The gearing remained less than 0.5 times historically. The relatively stable profitability coupled with low debt levels also led to healthy debt coverage indicators, wherein TD/OPBDITA remained at 0.8 times as on March 31, 2018 and 0.7 times as on Dec 31, 2018.

Low working capital intensity due to efficient inventory turnover – As inherent in the industry, the firm needs to maintain a high level of inventory across all its showrooms in order to display varied designs of jewellery to its customers. Further since the past two fiscals, the firm's geographical expansion has also increased its inventory requirements to some extent. Yet the overall working capital intensity of the firm remains better than most of its industry peers because of its efficient inventory turnover, given the PNG's brand strength, its ability to convert footfalls into actual sales and prudent inventory management system.

Strong brand equity supporting customer acquisition at new stores and resulting in its early break-even - The firm remains exposed to competition from large unorganised local players in the vicinity of its showrooms. The major store expansion drive by the large organised retailers in the recent years has also intensified the competition to an extent. However, the company has been able to establish a strong customer base and healthy goodwill through transparent trade practices and high-quality products resulting in healthy new stores revenue growth and their early breakeven in typically twelve to eighteen months.

Credit weaknesses

Moderate interest coverage indicator – The interest coverage indicator remained moderate majorly due to high interest expense associated with Partner's fixed capital. The partner's fixed capital was increased from Rs. 40.0 crore in FY2017 to Rs. 100 crores in FY2018 resulting in high interest expense and moderating the interest coverage metrics of the firm. As on March 31, 2018, the OPBDITA/ interest remained at 2.8 times as against 5.3 times in FY2017.

Exposed to risks inherent in partnership firms, including the risk of capital withdrawal – Given PNG Sangli's constitution as a partnership firm, it is exposed to discrete risks including the limited ability to raise capital and possibility of withdrawal of capital by the partners. Any significant capital withdrawal by the partners could lead to cashflow mismatches and thus remains a sensitivity for the credit perspective.

Profitability remains susceptible to the fluctuation in gold prices – Typical to the retail jewellery business, the raw materials constitute over 90% of the operating cost of the firm. Since ~95% of the firm's revenue is contributed by gold jewellery sales, the profitability of the company remains susceptible to gold price movements. Further absence of the formal hedging practices aggravates the risk to some extent.

Jewellery industry remains exposed to regulatory risks; push towards formalisation of sector likely to benefit organised retailers like PNG Sangli – The government currently aim towards increasing transparency in the gold jewellery industry which has resulted in increased regulatory intervention and has impacted the operating environment and the performance of the jewellers. Measures like limited access to gold metal loans, mandatory PAN card disclosure requirement for purchases, demonetisation etc. had its effect on both demand and supply. Increasing supervision and the current cautious lending environment is expected to restrict fund flows in the sector over the short term. However over medium to long term, these regulatory measures are likely to support the organised jewellers like PNG Sangli resulting in accelerated formalisation of the sector and sharp decline in unorganised players' market share.

Liquidity position

The liquidity position is likely to remain adequate due to absence of long term debt repayment obligations, no major capex plans and expected improvement in accruals over the medium term. Adequate buffer availability in the working capital limits with respect to the drawing power also provide comfort.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery-Retail Industry
Parent/Group Support	Not applicable.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

M/s Purushottam Narayan Gadgil is engaged in the retail sale of gold, silver and precious gemstones jewelleries as well as trading of bullion. The firm enjoys over eighteen decades long legacy of 'P N Gadgil' brand established by the Gadgil family which entered into the gold jewellery business in the year 1832 in Sangli, Maharashtra under the name 'Purushottam Narayan Gadgil Jewellers'. As on Dec 31, 2018, the firm has 7 stores in south western Maharashtra and 3 in Karnataka with an aggregate build up area of ~40,000 sq. ft. The firm further intends to open a store in Karnataka in FY2020.

In FY2018, the firm reported a net profit of Rs. 16.5 crore on an operating income (OI) of Rs. 968.0 crore, compared to a net profit of Rs. 32.8 crore on an OI of Rs. 739.5 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	739.5	968.0
PAT (Rs. crore)	32.8	16.5
OPBDIT/ OI (%)	6.0%	5.4%
RoCE (%)	25.8%	26.2%
Total Debt/ TNW (times)	0.3	0.3
Total Debt/ OPBDIT (times)	1.0	0.8
Interest Coverage (times)	5.3	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	April 2019	FY2018	FY2017	FY2016
1	Cash Credit	Long Term	40.0	-	[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	-	-	-	40.0	[ICRA]A- (Stable)

Source: Company data

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Gaurav Jain
+91 20 6606 9922
gaurav.jain@icraindia.com

Abhishek Suryawanshi
+91 20 6606 9917
abhishek.suryawanshi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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