May 11, 2020

P. N. Gadgil & Sons Limited: Ratings Update

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities	335.00	335.00	[ICRA]A (Stable); Outstanding
Short-term Fund-based/Non-fund Based – Interchangeable#	(55.00)	(55.00)	[ICRA]A1; Outstanding
Fixed Deposits Programme	40.00	40.00	MA+(Stable); Outstanding
Total	**375.00**	**375.00**	

**Instrument details are provided in Annexure-1, #Interchangeable with CC limits and*

Rationale

The rating update on P.N Gadgil & Sons Limited(PNGSL) follows the impact of the novel coronavirus (COVID-19) outbreak on the Jewellery industry. Following the rapid proliferation of the disease, the Government has resorted to lockdown to curb the contagion. The lockdown ahead of the festival and wedding season, has impacted the revenues of the Jewellery industry over the short term. In addition to the revenues being impacted, the fixed cost in forms of employee payout, rentals etc will also impact the earning profiles of the company till lockdown is lifted.

ICRA also notes the company's inability to process the interest payment on fixed deposits on March 31,2020 (fixed deposit outstanding at Rs. 8.89 crore), owing to operational constraints from the nationwide lockdown. However, with partial relaxation in lockdown post May 3, the company has paid the interest amount (including overdue period) to fixed deposit holders by May 6,2020. Accordingly, ICRA has not recognised this instance as a Default. Non-recognition of default in this case is as per the guidance provided by the SEBI circular, SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53, dated March 30, 2020. ICRA also notes that the company had sufficient liquidity in the form of cash and cash equivalent to pay the interest on fixed deposits. In ICRA's opinion, the said missed payment is not a reflection of the lack of ability or willingness of the company to pay the dues.

The ratings continue to factor in PNGSL's long-standing presence in the domestic gold jewellery retail industry, its superior brand equity in Pune as well as other cities in Maharashtra, and extensive experience of its promoters. Over the years, PNGSL has established a strong position in the Pune jewellery retail market, along with expanding to over 22 other cities and towns in Maharashtra, Karnataka and Gujarat. This, coupled with increasing formalisation of the sector, will continue to benefit organised retailers like PNGSL, thus providing strong revenue visibility. The ratings also consider the company's favourable financial risk profile, reflected by a healthy return on capital employed backed by efficient inventory management practices.

The ratings are, however, constrained by the relatively high geographical concentration on the Pune market, despite expansions in other regions of Maharashtra over the last two years. The ratings also factor in the modest margins inherent in the business. The company's earnings remain vulnerable to fluctuation in gold prices, given that raw material cost constitutes about 90% of the operating cost. Though the company's working capital management remains efficient, its sizeable inventory associated with gold deposit schemes (off balance sheet) deteriorates the inventory turnover matrix to some extent. The ratings also factor in intense competition and fragmented industry structure, which are likely to keep the margins under check. ICRA also notes the inherent regulatory risks in the industry, which impacted the retailers' performance in the past.

Key rating drivers and their description

Updated information not available, refer to the previous detailed rating rationale on the following link for complete information *Click Here*

Liquidity position:

Updated information not available, refer to the previous detailed rating rationale on the following link for complete information *Click Here*

Rating sensitivities

Updated information not available

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 ratings are based on the standalone financial statement of the issuer.

About the company

PNGSL is involved in the retail sale of gold, silver and diamond studded jewellery and the trading of bullion. The company enjoys an over 18-decade long legacy of the P N Gadgil brand. The same was established by the Gadgil family, who entered the gold jewellery business in 1832 at Sangli, Maharashtra under the name of Purushottam Narayan Gadgil Jewellers. As on March 31, 2019, the company had 27 stores in Maharashtra, one in Karnataka and one in Gujarat, with an aggregate carpet area of 99,597 sq. ft.

In FY2019, the company reported a net profit of Rs. 63.8 crore on an operating income of Rs. 2,004.8 crore compared to a net profit of Rs. 57.6 crore on an operating income of Rs. 1,832.5 crores in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,832.5	2,004.8
PAT (Rs. crore)	57.6	63.8
OPBDIT/OI (%)	6.1%	6.3%
RoCE (%)	30.0%	28.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.4
Total Debt/OPBDIT (times)	2.5	2.1
Interest Coverage (times)	4.2	4.3
DSCR	3.1	3.1

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
					11-May-2020	20-Aug-2019	17-Sep-2018	11-Sep-2017
1	Cash credit	Long Term	335.0	0.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund-based/Non-fund Based Interchangeable	Short Term	(55.0)	0.0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Fixed Deposit	Medium term	40.0	8.89	MA+ (Stable)	MA+ (Stable)	-	-

Amount in Rs. crore ; Interchangeable with CC limits*

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Cash Credit/Working Capital Demand Loan	-	-	-	335.00	[ICRA]A(Stable)
NA	Short-term Interchangeable#	-	-	-	(55.00)	[ICRA]A1
NA	Fixed Deposit	-	8%	-	40.00	MA+ (Stable)

**Interchangeable with CC Limits*
Source: P. N. Gadgil & Sons Limited

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

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