June 19, 2020

M/S. Purushottam Narayan Gadgil: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	40.0	75.0	[ICRA]A-(Stable); Reaffirmed
Total	40.0	**75.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the established position of M/S Purushottam Narayan Gadgil (PNG Sangli) in its area of operations (primarily in Sangli and Kolhapur, Maharashtra), with presence of more than eighteen decades in the retail jewellery industry. The rating factors in its comfortable financial risk profile marked by healthy capital structure and adequate debt protection metrics, supported by adequate accruals and low debt levels. The firm's capital structure and coverage indicator remain comfortable with estimated gearing and TD/OPBITDA of 0.4 times and 1.2 times, respectively, as of March 2020 (based on FY2020 provisional numbers, 0.2 times and 0.7 times as on March 31, 2019). The interest coverage is estimated to be 6.7 times in FY2020 (versus 3.1 times in FY2019), as it has reduced interest on partner's fixed capital to 3% from 12% from April 1, 2019.

The rating, however, remains constrained by its high geographical concentration on the Sangli and Kolhapur markets (about 75% of revenue), along with moderate scale of operations as depicted by revenues of Rs. 1,026 crore from 10 showrooms in FY2019. The rating 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, with raw material cost constituting over 90% of its operating cost. PNG Sangli is exposed to risks inherent in partnership firms, including the risk of capital withdrawal. Though the firm's working capital management remains efficient, its sizeable inventory associated with gold deposit schemes (off balance sheet) deteriorates the inventory turnover metrics to some extent. The rating factors in the 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.

ICRA expects the novel coronavirus (Covid-19) pandemic to affect the sales volume and margins of jewellery retail players in FY2021. The extent of the impact on revenues and earnings would, however, depend on the eventual duration of the pandemic-related demand fallout. However, the firm's lower debt levels and limited fixed cost will help to reduce the impact on its earnings and debt indicators. ICRA will continue to monitor the Covid-19 pandemic-related impact on its financial profile.

The Stable outlook on the rating reflects ICRA's expectation that the firm will continue to benefit from the extensive experience of the promoters and established market position of the PNG brand in gold retailing business, particularly in south-western Maharashtra.

Key rating drivers and their description

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. The Sangli and Kolhapur markets contributed to about 75% of its revenues over the years. Its retail presence spanning more than eighteen decades has helped in developing a strong brand loyalty in the region.

Healthy financial profile – The firm's financial profile is strong, supported by healthy return indicators and moderate debt coverage indicators. Its ROCE was comfortable at 27.6% in FY2019, aided by improved operating profits and asset light store expansion. The capital structure and debt protection metrics remained healthy with estimated gearing of 0.4 times and TD/OPBITDA of 1.2 times in FY2020 (based on provisional numbers). The interest coverage is expected to improve to 6.7 times FY2020 compared to 3.1 times in FY2019, as the firm has reduced interest on partner's capital to 3% from 12% from April 1, 2019.

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, geographical expansion has increased its inventory requirements to some extent. Yet the firm's overall working capital intensity remains better than most of its industry peers due to efficient inventory turnover, given PNG's brand strength and its ability to convert footfalls into actual sales. and prudent inventory management system.

Credit challenges

Potential impact on revenues and earnings due to Covid-19 pandemic – Due to 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 impacted the firm's revenues for Q1 FY2021. Moreover, the fixed cost in form of employee payout, rentals, etc, also affected its earnings. ICRA expects a significant decline in PNG Sangli's sales volume in FY2021, while the overall impact depends on the eventual duration of the Covid-19 pandemic-related demand fallout, which remains to be seen.

Exposed to geographical concentration risk – The firm is exposed to geographical concentration risk, with prominent presence in Maharashtra and about 75% of revenues derived from Sangli and Kolhapur markets. However, with an extensive track record, PNG Sangli enjoys a strong customer base and market share in its core region, helping it reduce this risk. While the firm's dependence on Sangli and Kolhapur markets remains high at present, it is expected to come down over the medium term with steady expansion across new geographies in Maharashtra and new stores in Karnataka launched in the recent years.

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

Exposed to risks inherent in partnership firms, including risk of capital withdrawal – Given its constitution as a partnership firm, PNG Sangli 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 cash flow mismatches and thus remains important from the credit perspective.

Liquidity position: Adequate

The firm's liquidity is **adequate** with expected cash flow from operations of nearly Rs. 15-17 crore, and no capex plans in FY2021. It does not have any principal repayment obligations as the debt comprises working capital debt and deposit from partners and relatives.

Overall, ICRA expects the firm to be able to meet its near-term commitments through internal as well as external sources of cash.

Rating sensitivities

Positive triggers – Sustained growth in scale of operations and earnings, improved business diversification could provide positive triggers for a rating upgrade.

Negative triggers – Negative pressure will result from a more-than-expected deterioration in the earnings or a rise in the debt levels with TD/OPBITDA above 1.5 times and interest coverage above 4 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
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financial statement of the issuer.

About the company

PNG Sangli is involved in the retail sale of gold, silver and diamond-studded jewellery and the trading of bullion. The firm 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, 2020, the firm had seven stores in Maharashtra and three in Karnataka, with an aggregate carpet area of 39,909 sq. ft.

In FY2019, the firm reported a net profit of Rs. 24.2 crore on an operating income (OI) of Rs. 1,026.8 crore compared to a net profit of Rs. 18.1 crore on an OI of Rs. 969.6 crore in FY2018. As per the provisional info shared by management, it recorded a net profit of Rs. 36.9 crore on an OI of Rs. 1,047.8 crore in FY2020.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	969.6	1026.8
PAT (Rs. crore)	18.1	24.2
OPBDIT/OI (%)	5.6%	6.1%
RoCE (%)	27.0%	27.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/OPBDIT (times)	0.8	0.7
Interest Coverage (times)	2.9	3.1
DSCR	1.8	2.0

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
					19-June-2020	2-April-2019		
1	Cash Credit	Long Term	75.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-

Amount in Rs. crore

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

ICRA

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	10.5%	NA	75.00	[ICRA]A-(Stable)

Source: M/S Purushottam Narayan Gadgil

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

Pawan Mundhra
+91 20 6606 9918
pawan.mundhra@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

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.

For more information, visit www.icra.in

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,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999