

Press Release

P N Gadgil Jewellers Private Limited

October 06, 2019



Rating Reaffirmed, Assigned & Withdrawn

Total Bank Facilities Rated*	Rs. 380.50 Cr. (Enhanced from Rs.366.50 crore)
Long Term Rating	ACUITE A- / Outlook: Negative (Outlook Revised to Negative)
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.290.00 crore bank facilities of P N Gadgil Jewellers Private Limited (PNG). The outlook has been revised to '**Negative**' from '**Stable**'.

Further, Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.90.50 crore bank facilities of P N Gadgil Jewellers Private Limited (PNG). The outlook is '**Negative**'.

Acuité has withdrawn the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.46.50 crore bank facilities of P N Gadgil Jewellers Private Limited (PNG).

Revision of Outlook

The revision in outlook is driven by the pressures faced by PNG in its operating performance on account of subdued demand for jewellery in domestic market. Acuité expects the pressures to continue over the near to medium term on account of intensified competition coupled with tepid growth in demand for jewellery. Further, the outlook is also revision to negative on account of significant increase in exposures towards group entities. The adjusted tangible net worth (ATNW) stood at Rs.80.56 crore as on 31 March, 2019 and TOL/ATNW stood at 9.41 times as on 31 March 2019. On account of moderation in demand for Gems and Jewellery sector coupled with increased loans and advances, the adjusted gearing levels are expected to remain at elevated levels. Further, timely and successful unwinding of the exposure will remain a key monitorable.

About the company

Maharashtra based P N Gadgil Jewellers Private Limited (PNG) is one of the oldest retailer of gold, silver, and diamond jewellery in Pune. The company was set up in 1832, later it was reconstituted in 2013 to private limited. The company is promoted by Mr. Saurabh Gadgil and Mr. Parag Gadgil among others. The company is engaged in manufacturing and retailing of Gold Jewellery, diamonds, and silverwares. PNG has 23 retail stores in Maharashtra, Madhya Pradesh and Goa.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the PNG to arrive at this rating.

Key Rating Drivers

Strengths

- **Established market position with a strong brand**

Pune based P N Gadgil Jewellers Private Limited is one of the biggest retail player in Maharashtra region. The brand (PNG) has been established since 1832 and is currently promoted by Mr. Saurabh Gadgil who possesses industry experience of over two decades, Mr. Parag Gadgil with an industry experience of over four decades and Mr. Vidyadhar Anant Gadgil with an industry experience of over five decades. PNG has 23 retail outlets across 3 states, primarily in Maharashtra. The company enjoys a strong market position backed by its long track record of over 100 years the business and wide customer base associated with it

for generations. Acuité believes that PNG will continue to benefit from its established market position over the medium term backed by its increasing network of stores.

• **Moderate Financial Risk Profile**

The financial risk profile of PNG has remained moderate on account of healthy tangible net worth, moderate gearing and coverage indicators. The tangible net worth of the company remained at Rs.220.08 crore as on 31 March 2019 as against Rs.191.15 crore in the previous year. The gearing (debt-equity) stood moderate at 1.41 times as on 31 March 2019 as against 1.81 times as on 31 March 2018. Further, the coverage indicators stood moderate marked by interest coverage of 2.36 times for FY2019 as against 2.21 times in the previous year. The total outside liabilities to tangible net worth (TOL/TNW) stood at 3.45 times as on 31 March 2019 as against 3.15 times as on 31 March 2018. The increase in TOL/TNW is majorly on account of significant increase in customer advances as on 2019. However, Debt/EBITDA has improved to 3.17 times for FY2019 as against 3.50 times for FY2018. Acuité believes the financial risk profile of PNG will remain moderate on account of healthy net cash accruals and in absence of any major debt funded capex.

Further, the company has changed its accounting policy as per the government regulations with regards to accounting treatment as per certain transactions of systematic investment plans of gold deposits/customer advances. This has impacted the balance sheet of PNG leading to increase in customer advances and subsequently increase in inventory by same amount. The inventory days has increased to 97 for FY2019 from 72 in the previous year.

Weaknesses

• **Revenue Concentration**

The company faces high store and geographic concentration risk. The group's total revenue is generated majorly from top 4 stores contributing to ~54 per cent of total revenue. The top 4 stores which contribute ~54 per cent are located in Pune, Maharashtra. The high store concentration renders the revenue growth and profitability susceptible to the growth plans.

• **Extension of funds in loans and advances**

PNG has a tangible net worth of Rs.220.08 crore as on 31 March, 2019. The company has extended loans and advances worth Rs. 139.52 crore which includes loans and advances and investments in group companies as on 31 March, 2019. The adjusted tangible net worth stood at Rs.80.56 crore as on 31 March, 2019. The adjusted gearing stood at 3.86 times as on 31 March, 2019.

• **Susceptibility to regulatory framework, and Intense Competition in Jewellery industry**

Government's regulations aimed towards increasing transparency in the gold jewellery industry through mandatory PAN disclosures for transactions above Rs. 2 lakh and compulsory hallmarking impacting the gold jewellery demand could hinder near - term growth prospects of the company. Despite its long-standing presence in the business, PNG faces challenges of intensifying competition from national players, such as Titan Company Limited, Tribhovandas Bhimji Zaveri Limited, Kalyan Jewellers India Limited and other regional players as well as pan India players. Further, the fragmented nature of the industry has resulted in strong competitive pressures thereby squeezing players' margins

Rating Sensitivity

- Further deterioration in capital structure on account of loans and advances
- Deterioration in operating performance of PNG

Material Covenants:

Particulars	Covenants
TOL/TNW	3.00 & 1.75
TOL/ATNW	4.50
Current Ratio	More than 1.33x & 1.1x
DSCR	Minimum of 1.5x and 1.75x
Term Debt/NCA	Less than 3x
Debt/Equity	Less than 2x
Debt/EBITDA	Less than 3x

Liquidity Position: Adequate

PNG has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. PNG reported cash accruals of Rs.42.99 crore for FY2019 against repayment of Rs. 16.66 crore. The cash accruals of the group are estimated in the range of Rs.48-52 crore, against repayment obligations of Rs.16 crore. Further, working capital cycle is moderate as reflected in GCA at 117 days in FY2019 (90 days in FY2018). Bank limit utilisation is over 80 per cent for 12 months through October 2019. Part of the working capital is also funded through customer advances. The current ratio stood low at 0.99 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs. 29.98 crore as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Negative

Acuité has revised the outlook of PNG to 'Negative' due to significant increase in exposure to group entities coupled with subdued operating performance which is expected to add to the pressures on the debt protection indicators over near to medium term. The rating may be downgraded in case any further deterioration of sales traction or any further increase in quantum of loans and advances. Conversely, the outlook may be revised to 'Stable' in case of significant improvement in capital structure or improvement in gems and jewellery industry scenario.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2,338.79	2,306.71
PAT	Rs. Cr.	24.91	21.82
PAT Margin	(%)	1.06	0.95
Total Debt/Tangible Net Worth	Times	1.41	1.81
PBDIT/Interest	Times	2.36	2.21

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
05-Oct-18	WCDL	Long Term	90.00	ACUITE A-/Stable
	Term Loan	Long Term	10.50	ACUITE A-/Stable
	Cash Credit	Long Term	60.00	ACUITE A-/Stable
	Cash Credit	Long Term	20.00	ACUITE A-/Stable
	Cash Credit	Long Term	15.00	ACUITE A-/Stable
	Overdraft	Long Term	20.00	ACUITE A-/Stable
	Cash Credit	Long Term	40.00	ACUITE A-/Stable
	Term Loan	Long Term	36.00	ACUITE A-/Stable
	Bank Guarantee	Short Term	45.00	ACUITE A2+
	Bank Guarantee	Short Term	25.00	ACUITE A2+
	Bank Guarantee	Short Term	5.00	ACUITE A2+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
WCDL	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)

Term Loan	Not Applicable	Not Applicable	Not Applicable	26.78	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	49.63	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.39	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.70	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A- (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE A- (Withdrawn)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-6714111 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Kashish Shah Senior Analyst - Rating Operations Tel: 022-67141142 kashish.shah@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.