

Press Release

P N Gadgil Jewellers Private Limited

March 04, 2021

Rating Reaffirmed and Outlook Revised; Withdrawn



Total Bank Facilities Rated*	Rs. 380.50 Cr.
Long Term Rating	ACUITE A-/Outlook: Stable (Reaffirmed and Outlook Revised; Withdrawn)
Short Term Rating	ACUITE A2+ (Reaffirmed; Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 380.50 crore bank facilities of P N Gadgil Jewellers Private Limited (PNGJ). The outlook is revised to '**Stable**' from '**Negative**'.

Further, Acuite has also withdrawn the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on previously rated fund based facility of Rs. 26.39 crore and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on Non fund based facility of Rs. 45.00 crore on request of client and NOC received from bankers in accordance with Acuite's withdrawal policy.

Revision in Outlook

The revision in rating outlook is on account of moderate improvement in operating performance as well as financial risk profile vis-à-vis historical trends on account of improved margins, reduction in debt levels, stable revenues from stores and cost effective measures undertaken by management in FY2020 and FY2021. Also, the company is able to manage its working capital cycle at same levels and maintain healthy liquidity profile.

Further, the outlook is also revised on account of moderate decline in exposures in the form of Corporate/Bank Guarantee extended towards group entities. The adjusted tangible net worth (ATNW) stood at Rs. 125.20 crores in FY2020 as against Rs.80.56 crore as on March 31, 2019. TOL/ATNW stood declined at 6.51 times as on March 31, 2020 as against 9.41 times as on March 31 2019. There has been moderate improvement in the ratios as compared to previous year. The company has also reduced contingent liability towards Dubai entity by paying Rs.40.32 crores, which was provided in the form of Bank Guarantee thereby reducing contingent liability. However, rating is constrained by higher reliance on working capital limits and tepid market conditions, which has impacted demand and lowered spending on discretionary products. Acuite expects group exposures likely to reduce over near to medium term, which remains key monitorable.

About Company

P N Gadgil Jewellers Private Limited (PNG) is based of Pune, Maharashtra. The company is one of the oldest retailer of gold, silver, and diamond jewellery. 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

Acuite has considered the standalone business and financial risk profile of PNGJ to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and establish track record of operation**

PNGJ, has established track record of over ten decades of operations and is one of the biggest retail player in Maharashtra region. The brand (PNG) is well recognized and the operations are 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. PNGJ, 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.

Further, the company has achieved operating income of Rs 2,360.98 crore in FY2020, which has slightly improved as compared to Rs. 2,338.85 crore in FY2019. The company has achieved revenue of Rs. 1,371.84 crores as on January 31, 2021. Improvement in revenues is supported by higher realization and increase in prices of gold over the years. Also, operating margin marginally improved to 4.53 percent in FY2020 as against 4.04 percent in FY2019. Moreover, PAT margin has also improved to 1.36 percent in FY2020 as against 1.06 percent in FY2019. The improvement in margins are mainly supported by lower interest outgo and reduction in overall operating expenses. Acuite believes that PNGJ 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 continues to remain moderate marked by moderate net worth, gearing and debt protection measures. The tangible net worth stood at Rs. 256.33 crores as on March 31, 2020 as against Rs. 220.08 crore as on March 31, 2019. The improvement in net worth is attributable to healthy accretion to reserves and higher profitability over the period. The gearing stood moderate at 1.09 times as on March 31, 2020 as against 1.41 times as on March 31, 2019. The total borrowings of Rs 278.59 crore as on March 31, 2020 comprises of short term borrowings of Rs 204.66 crores and term loan of Rs. 73.91 crores. The net cash accruals stood improved at Rs. 44.15 crore for FY2020 as against debt repayment obligation of Rs. 26.84 crores. The interest coverage ratio (ICR) stood at 2.96 times in FY2020 as against 2.36 times in FY2019. The total outside liabilities to tangible net worth stood high at 3.18 times as on March 31, 2020 as against 3.45 times as on March 31, 2019.

Further, company's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 130 days in FY2020 as compared to 117 days in FY2019. The GCA days are mainly dominated by high inventory holding period which has increased to 114 days in FY2020 as against 97 days in FY2019. Receivables period stood low during last three years ending FY2020. The elongation is mainly on account of nationwide lockdown during March to June 2020. However, the company reliance is higher on bank limits which stood utilised 83.00 percent in the last trailing six month ended January 2021. Acuite believes that the financial risk profile of the company will continue to remain moderate over the medium to long term due to regular accretion to reserves, expected improvement in working capital cycle and no major debt funded capital expenditures.

Weaknesses

- **Revenue concentration risk and significant exposure to group companies**

The company faces high store and geographic concentration risk. The company's total revenue is generated majorly from top 3 stores contributing to ~53 per cent of total revenue. The top 3 stores which contribute ~53.00 per cent are located in Pune, Maharashtra. The high store concentration renders the revenue growth and profitability susceptible to the growth plans. Also, the company is planning to close Indore, Madhya Pradesh store and has no plans to add store, which will eventually put more pressure on existing stores.

Further, PNGJ has a tangible net worth of Rs. 256.33 crore as on March 31, 2020. The company has extended loans and advances worth Rs. 131.13 crore which includes loans and advances and investments in group companies as on March 31, 2020. The adjusted tangible net worth stood at Rs. 125.20 crores in as on March 31, 2020 as against Rs.80.56 crore as on March 31, 2019. The adjusted gearing stood at 2.22 times as on

March 31 2020 as against 3.86 times as on March 31, 2019. However, company is trying to reduce exposure which is evident through decline in total exposure and settling off contingent liability of Rs.40.32 crores towards Dubai Entity. Further, TOL/ATNW stood improved at 6.51 times as on March 31, 2020 as against 9.41 times as on March 31, 2019.

• **Intense competition from other branded players in industry, Impact of Pandemic, and susceptibility to regulatory framework**

PNGJ remains exposed to the vulnerability of gold jewellery demand to gold price fluctuations. There was a steep decline in revenue in Q1FY2021 on account of the stores remained non-operational on account of COVID-19 outbreak. Operations of the company were impacted due to lockdown imposed during March 2020 to June 2020. The company has booked revenue of Rs. 1372.00 crores for 10MFY2021 (Provisional). Acuite believes that PNGJ is expected to see a revenue downfall of 25 percent to 30 percent in FY2021, followed by a recovery in FY2022. Also, purchase plans and weddings have postponed due to pandemic. Also, this year wedding season and festival have seen dullness.

Increased regulatory intervention in jewellery industry in the recent years has impacted the demand and supply scenario in the industry. In the long term, regulatory measures such as hallmarking, the requirement of permanent account number, mandatory disclosure for purchases above threshold limits, restrictions on jewellery saving schemes, increase in import duty, and introduction of the sovereign gold bond schemes to shift consumer preference away from physical gold. The industry continue to remain exposed to regulatory interventions and gold price volatility, which would continue to impact the demand-supply scenario.

Moreover, gold jewellery retailing is a highly-fragmented segment, with the presence of large organised players and numerous unorganised ones. Acuite believes that the ability to manage steady revenue growth, while maintaining profitability and efficiently managing working capital cycle will be the key rating sensitivity factors.

Liquidity Position: Adequate

The company maintains adequate liquidity position marked by net cash accruals of Rs. 41.00 to 44.00 crore for last three years ending FY2020 against debt repayment of ~Rs. 16.00-27.00 crore over the same period. The current ratio of the company stood at 1.12 times as on March 31, 2020. NCA/TD stood at 0.22 times as on March 31, 2020 and 0.16 times in the previous year. The company had unencumbered cash and bank balances of Rs. 10.66 crore as on March 31, 2020. The company's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 130 days in FY2020 as compared to 117 days in FY2019. The company reliance is higher on bank limits which stood utilised 83 percent in the last trailing six month ended January 2021.

Rating Sensitivities

- Improvement in margins, net cash accruals and liquidity profile
- Elongation in working capital leading to higher-than-expected reliance on external borrowings
- Further increase in group exposure leading to deterioration in the financial risk profile

Outlook: Stable

Acuite has revised the outlook to 'Stable' from 'Negative' on account of moderate improvement in operating performance as well as financial risk profile vis-à-vis historical trends on account of improved margins, reduction in debt levels, stable revenues from stores and cost effective measures undertaken by management in FY2020 and FY2021. Also, company is able to manage its working capital cycle at same levels and maintain healthy liquidity profile. Further, the company has reduced group exposure to some extent which still remains a key monitorable. The 'Outlook' may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining its debt protection metrics and profitability. The 'Outlook' may be revised to 'Negative' in case of significant decline in operations, deterioration in profitability margins or weakening of debt protection metrics due to increase in exposure to group companies/associates.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	2,360.98	2,338.85
PAT	Rs. Cr.	32.09	24.91
PAT Margin	(%)	1.36	1.06
Total Debt/Tangible Net Worth	Times	1.09	1.41
PBDIT/Interest	Times	2.96	2.36

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

Not Applicable

Any other information

CRISIL vide its press release date 26th August 2020, has migrated its rating on PNG from 'CRISIL BB+/Stable/CRISIL A4+, Issuer Not Cooperating' ratings migrated to 'CRISIL BBB+/Stable/CRISIL A2'.

Any Material Covenants

- Total Debt/EBITDA <=3.7x
- DSCR > 1.2x
- Current Ratio >1.10x

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
06-Dec-2019	WCDL	Long Term	90.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	60.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	20.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	15.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Overdraft	Long Term	20.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	40.00	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
	Bank Guarantee	Short Term	35.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)

	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	26.78	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	49.63	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	6.39	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	7.70	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	36.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	10.50	ACUITE A- (Withdrawn)
05-Oct-2018	WCDL	Long Term	90.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	10.50	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	60.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A-/Stable (Assigned)
	Overdraft	Long Term	20.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	40.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	36.00	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	45.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)

***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	65.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Working Capital Term Loan (GECL)	Jan -2020	Not Applicable	Dec-2024	13.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Working Capital Term Loan	April -2020	Not Applicable	Mar-2021	5.70	ACUITE A-/Stable (Reaffirmed; Outlook Revised)

(GECL)					
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Withdrawn)
Proposed Short term Bank facility	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A2+ (Reaffirmed)
Proposed long term Bank facility	Not Applicable	Not Applicable	Not Applicable	39.03	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term Loan	Oct- 2018	Not Applicable	Sep-2023	27.67	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term Loan	Apr- 2019	Not Applicable	Mar-2024	35.83	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term Loan	Mar -2019	Not Applicable	Jul -2020	6.39	ACUITE A- (Withdrawn)
Term Loan	Mar -2019	Not Applicable	Feb-2024	4.34	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term Loan	Jun - 2020	Not Applicable	Apr-2024	4.43	ACUITE A-/Stable (Reaffirmed; Outlook Revised)

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About Acuite Ratings & Research:

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