



## Press Release

### Padmavati Chains Private Limited

December 21, 2023

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	98.00 (increased from Rs.65.00 crore)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
<b>Total</b>	<b>98.00 (Rupees Ninety- Eight crore only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Padmavati Chains Private Limited (PCPL) factors in the experience of the promoters, established relationship with reputed and well-known customers, substantial growth in scale of operations in FY22 and FY23 and prudent working capital management. The ratings are, however, constrained on account of the company's thin profitability margins, its moderate capital structure and debt protection metrics, susceptibility of its margins to volatility in the price of gold and exposure to regulatory risks, and presence of the company in a highly competitive and fragmented industry.

#### Key Rating Sensitivities:

##### Upward Factors

- Increase in total operating income above 20% on a sustained basis.
- Increase in EBITDA margin above 5% on a sustained basis.
- Improvement in overall gearing to below unity on a sustained basis and improvement in the debt protection metrics.

##### Downward Factors

- Decline in total operating income impacting the capital structure, debt coverage indicators and/ or liquidity profile of the company.
- Any regulatory changes impacting the company's business profile.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Experienced promoters**

PCPL is promoted by Mr. Rajendrakumar Maganlal Jain has around 27 years rich experience in retailing and trading of gold jewellery and Mr. Shripalkumar Maganlal Jain has an experience of 32 years in manufacturing and trading of gold jewellery. By virtue of the vast experience of the promoter, PCPL has long standing relations with its customers and suppliers.

##### **Established relationship with reputed and well-known customers**

The company caters to the gold jewellery requirement of reputed brands. PCPL offers its customers a wide variety of jewellery from across India in order to cater to regional preferences. The established relation with customers helps it get repeat orders from them.

##### **Substantial growth in scale of operations in FY22 and FY23**

Total operating income increased substantially by around 14.76% in FY22, from Rs.504.62 crore in FY21 to Rs.579.10 crore in FY22. Post unlocking in June 2021, virtual shows and exhibitions started, and the company received good response from south India. Both the volume sold and the average realisation improved in FY22 and FY23 resulting in the substantial growth in income. In FY23, the total operating income increased further by 20.90%, to Rs.700.11 crore mainly due to the increase in the volumes sold. The company has added many new clients spread across different states of India in the last one year, which has been aiding the sales growth.

##### **Prudent working capital management**

Gems and jewellery industry consists of high price, large volume and low margin products which makes the business highly working capital intensive. The company has managed its working capital requirements prudently despite having to purchase mainly on cash basis and having to extend credit to its customers. It has been extending 30-45 days credit to its customers, as explained above. Typically, the company maintains inventory of around 20-30 days. Its operating cycle was 49 days in FY23 as against 40 days in FY22. The working capital requirement of the company is mainly funded through promoter's funds in the form of unsecured loan (as and when required) and bank borrowings.

#### Key Rating Weaknesses



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### **Thin profitability margins**

Although, the EBITDA margin improved marginally from Rs.1.59% in FY22 to 2.03% in FY23 and continued to remain thin. In line with EBITDA margin, PAT margin also improved marginally from 0.64% in FY21 to 0.78% in FY23 but continued to remain thin.

### **Moderate capital structure and debt protection metrics.**

PCPL's capital structure moderately deteriorated with overall gearing ratio (including quasi equity) and TOL/ TNW ratio (including quasi equity) of 1.99x and 2.36x respectively as on March 31, 2023, as against 1.1.6x and 1.94x respectively as on March 31, 2022. However, the capital structure deteriorated in FY22 due to increase in working capital borrowings. Accordingly, its debt protection metrics also moderately deteriorated with interest coverage and total debt/ GCA ratios of 2.23x and 13.98x respectively in FY23 as against 2.28x and 10.88x respectively in FY22.

### **Susceptibility of margins to volatility in the price of gold and exposure to regulatory risks**

Gold and diamond are traded in the international market, so trading in gold, diamond and studded jewellery is highly influenced by several government policies and regulations, which changes from time to time. Recent changes in regulation include mandatory PAN number collection for purchase of gold jewellery above Rs.2 lakh, mandatory hallmarking of gold jewellery etc. The government also regulates the import duty on gold. The government is also encouraging investment in gold bonds and schemes as an alternative to physical gold. All these regulatory interventions affect the demand and supply of gold and the investment in the sector. Since gold is considered as the most near to liquid investment and can be readily sold in over the counter and traded on multiple exchanges the prices volatile in nature. These keep the price of gold highly volatile and can impact the margins of the companies in the industry.

### **Presence in a highly competitive and fragmented industry**

The gems and jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated manufacturers leading to highly competitive industry. The company faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry impacts the company's profitability margins.

**Analytical Approach:** Standalone



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### Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### **Liquidity – Adequate**

PCPL's liquidity position is adequate given the sufficient cash accruals in the period of FY24-26 as against the repayments. The free cash balance as on March 31, 2023 stood at Rs.1.53 crore, while the average working capital utilisation for the 12 months ended September 2023 remained at around ~94%. The company does not plan to undertake any major capex in FY24-26.

### **About the Company**

PCPL is a Mumbai based manufacturer of gold jewellery. PCPL was incorporated on November 30, 2010 at Mumbai. The company has branch offices in Thrissur, Chennai and Hyderabad.

The company manufactures many types of jewellery, including Turkish and CZ Studded Jewellery. The company mainly deals in 22 carat gold jewellery. The company has its own production facility.

The products are all varieties of handmade and casting jewellery comprising of finger rings, earrings, nose rings, pendants, fancy pendant sets, bracelets, chains, necklaces, bangles, armlets, maangtika, handsets, key chains, watch straps, mangalsutras etc. It specializes in diamond look jewellery, light weight heavy look jewellery with contemporary designs etc.

The company is managed by two whole-time promoter directors, Mr. Rajendrakumar Maganlal Jain and Mr. Shripalkumar Maganlal Jain.

### **Financials (Standalone):**

	(Rs. crore)	
For the year ended/As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	579.10	700.11
EBITDA	9.18	14.21



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For the year ended/As on*	31-03-2022	31-03-2023
	<b>Audited</b>	<b>Audited</b>
PAT	3.72	5.43
Total Debt	41.90	78.86
Tangible Net Worth (including quasi equity)	34.20	39.63
<b>Ratios</b>		
EBITDA Margin (%)	1.59	2.03
PAT Margin (%)	0.64	0.78
Overall Gearing Ratio including Quasi Equity (x)	1.16x	1.99x

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instruments/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (November 9, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	3.00	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
2.	Cash Credit	Long Term	95.00	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-

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**About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration



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from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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### Annexure 1: Details of Instruments/ Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL	-	-	August 9, 2024	0.60	IVR BBB-/ Stable
GECL Extension	-	-	November 24, 2026	2.40	IVR BBB-/ Stable
Cash Credit	-	-	-	95.00	IVR BBB-/ Stable





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**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-Padmavati-dec23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).