



Press Release

Padmavati Chains Pvt. Ltd.

November 9, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	65.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	65.00 (Rupees Sixty Five crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Padmavati Chains Pvt. Ltd. (PCPL) factors in the experience of the promoters, established relationship with reputed and well-known customers, substantial growth in scale of operations in FY21 and FY22 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 and Mr. Shripalkumar Maganlal Jain. Mr. Rajendrakumar Maganlal Jain has around 26 years rich experience in retailing and trading of gold jewellery and Mr. Shripalkumar Maganlal Jain has an experience of 31 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 like Bhima Group, Joyalukkas Group, City Gold Group, Malabar Gold Pvt. Ltd., Manappuram Jewellers Ltd. etc. 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 FY21 and FY22

Total operating income increased substantially by around 149% in FY21, from Rs.202.28 crore in FY20 to Rs.504.62 crore in FY21, despite lockdown in the 1st two months of the year. 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 FY21 resulting in the substantial growth in income. In FY22, the total operating income increased further by 14.75%, mainly due to the increase in the volumes sold. The company has added 124 new clients spread across 15 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 generally 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. Typically, the company maintains inventory of around 15-30 days. Its operating cycle was 40 days in FY22 as against 32 days in FY21. 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.



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Key Rating Weaknesses

Thin profitability margins

PCPL's profitability margins remain low, with EBITDA margin in the range of 1.2%-1.6% and PAT margin in the range of 0.4%-0.6% in FY19-22. The profitability is also highly susceptible to the gold price movement, and as such remains volatile.

Moderate capital structure and debt protection metrics.

The total debt largely comprises of working capital borrowings and unsecured loans from promoters and their relatives (which are subordinated to the bank debt). With increase in the scale of operations, the working capital borrowings has been increasing over the last few years, leading to deterioration in the company's capital structure and the total indebtedness. The overall gearing ratio and the TOL/ TNW ratio (considering unsecured loans which are subordinated to bank debt as quasi equity) stood at 1.42x and 2.19x respectively as on March 31, 2022 as against 1.01x and 2.07x respectively as on March 31, 2021, and 1.04x and 1.14x respectively as on March 31, 2020. Interest coverage ratio is moderate at 2.28x in FY22 as against 2.82x in FY21, whereas the total debt/ GCA was very high at 11.58x in FY22.

It may be noted that Rs.2.20 crore of equity was infused by the promoters at face value Rs.10 per share and share premium of Rs.210 per share during FY22. Accordingly, the equity share capital went up from Rs.0.79 crore as on March 31, 2021 to Rs.0.89 crore as on March 31, 2022, while the share premium went up from Rs.6.71 crore as on March 31, 2021 to Rs.8.81 crore as on March 31, 2022.

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



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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

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 FY23-25 as against the repayments. The free cash balance as on March 31, 2022 stood at Rs.0.09 crore, while the average working capital utilisation for the 12 months ended August 2022 remained at around ~93%. The company does not plan to undertake any capex in FY23-25.

About the Company

PCPL is a Mumbai based manufacturer and trader of gold jewellery. PCPL was incorporated on November 30, 2010 at Mumbai. The company has branch offices in Thrissur and Chennai. 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, hand sets, key chains, watch straps, mangalsutras etc. It specializes in diamond look jewellery, light weight heavy look jewellery with contemporary designs etc.



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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*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	504.62	579.10
EBITDA	6.21	9.18
PAT	2.94	3.71
Total Debt	25.76	44.61
Tangible Net Worth (including quasi equity)	25.57	31.49
Ratios		
EBITDA Margin (%)	1.23	1.59
PAT Margin (%)	0.79	0.87
Overall Gearing Ratio including Quasi Equity (x)	1.01x	1.42x

*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 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	5.00	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	60.00	IVR BBB-/ Stable	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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
Term Loan	-	-	November 24, 2026	5.00	IVR BBB-/ Stable
Cash Credit	-	-	-	60.00	IVR BBB-/ Stable

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



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Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-PCPL-nov22.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.