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Mumbai

CRISIL Research assigns IPO grade '3/5' to PC Jeweller Ltd

CRISIL has assigned a CRISIL IPO Grade "3/5" (pronounced "three on five") to the proposed initial public offer (IPO) of PC Jeweller Ltd (PCJ). This grade indicates that the fundamentals of the IPO are 'average' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

PCJ is an established jewellery retailer in North India. The assigned grade reflects its seven-year-old presence and the ensuing strong reputation in an industry quintessentially benefited by the country's obsession for gold. Strong brand recall, successful branch expansion (from one to 30 showrooms in the past seven years) and stellar increase in gold prices have added shine to PCJ's top line, which has grown at a three-year CAGR of 69%. The grade factors in the resilience of demand for gold jewellery in India despite high gold prices; we expect demand to revive in the long term as gold prices stabilise. Compared with other gold jewellery players, PCJ's revenue mix leans towards higher-margin diamond jewellery, which is rewarding in the wake of increasing acceptance of diamond jewellery in India. The grade has also taken into account the expected increase in organised retail penetration in jewellery vis-à-vis the single-store format, which will benefit established players such as PCJ.

However, competition in the jewellery retailing market - likely to intensify following planned expansions by regional/traditional players - poses a significant risk. Further, PCJ's stores are concentrated in North India (four stores in Delhi accounted for 44% of FY12 revenue from operation). PCJ's plans to add 20 showrooms by FY14 across India should mitigate the risk of regional concentration but the opening of new stores in a competitive market is likely to put pressure on profitability due to higher marketing expenses and working capital requirement. Also, the compensation structure for key management personnel appears low, which can lead to attrition.

PCJ's revenue from operation increased at a three-year CAGR of 69% between FY09 and FY12 to Rs 30.4 bn, largely driven by branch additions and steady increase in gold prices. EBITDA margin remained steady at 9-10% over FY09-FY12 due to hedging of gold and stable overhead costs. PAT increased sevenfold over the past three years to Rs 2,313 mn in FY12. The company registered robust RoE of 55% over FY09-FY12.

About the company and the issue

PCJ was established in 2005 after a split between the partners. The Delhi-based company is promoted by brothers Mr Padam Chand Gupta and Mr Balram Garg. The company retails gold jewellery (66% of FY12 revenue from operations) and diamond-studded jewellery (32%) under the "PC Jeweller" brand. It has 30 showrooms across 23 cities in North and Central India totaling ~164,572 sq ft as on September 30, 2012. The domestic market accounted for 67% of FY12 revenue from operations and exports the rest. The company's manufacturing units for gold and diamond-studded jewellery are located in North India. PCJ is planning to open 20 new large format, high street showrooms with an average carpet area of 6,650 sq. ft. The company will use the IPO proceeds to set up these new showrooms and to finance the incremental working capital requirement.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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About CRISIL Research

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