

Date: July 19, 2019

To,
The Manager,
Listing Compliance Department,
National Stock Exchange of India Limited,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (E), Mumbai – 400 051

Sub.: Clarification regarding Revision in Credit Rating

Dear Sir,

With reference to your e-mail dated July 18, 2019 seeking clarification on our announcement 'Revision in Credit Rating' submitted on June 8, 2019, the abstracts of the rationale / reasons published by rating agencies for downward rating are as under:

i) Rationale for CRISIL Ratings to the Bank Facilities:

The downgrade reflects significant operating losses reported by the PCJ group on account of an unexpected one time discount of Rs 513 crore given to export customers following build-up of receivables outstanding as on March 31, 2019. As a result of these discounts, financial metrics were impacted, with interest coverage falling below 1 time in fiscal 2019. The written-off receivables are contrary to the management's stance of reducing debtors to Rs 1000 crore by March 31, 2019. Instead, receivables increased to Rs 1987 crore (accounting for discount of Rs 500 crore) as on March 31, 2019, against Rs 1851 crore a year earlier, at a consolidated level. Consolidated earnings before depreciation, interest and taxes and profit before tax for Q4 2019 were both negative, at Rs 452 crore and Rs 377 crore, respectively.

Furthermore, operating income for the domestic business grew by 1.9% in fiscal 2019 due to consolidation of business operations with retail store rationalisation, reduction in credit facilities by banks, and competitive pressure resulting in discounted pricing. Time taken to recover export receivables in the first half of fiscal 2020 and domestic operations will remain key monitorables. Additionally, continued pressure on liquidity due to reduction in bank lines and financial flexibility will continue to constrain the credit profile of the group. Recently, PCJ announced its intention to de-merge its export business from its domestic operations by floating a 100% subsidiary, PCJ Gems & Jewellery Ltd, regulatory approvals for which are yet to be received.

The ratings continue to reflect the PCJ group's strong market position in manufacturing and retailing of gold and diamond jewellery and its above-average capital structure. These strengths are partially offset by large working capital requirement and the risk of unfavourable regulatory changes.

PC Jeweller Limited



ii) Rationale for CARE Ratings to the Fixed Deposit Programme

The revision in the rating assigned to the medium term instrument of PC Jeweller Limited takes into account the deterioration in the financial performance of the company in FY19 (refers to the period from April to March 31) as reflected by its declining revenue, stressed profitability, elongated operating cycle and deterioration in the debt coverage indicators of the company. Further, the liquidity position and financial flexibility of the company has also weakened marked by decline in cash and bank balance and reduced market capitalization. The rating remains constrained by the regional concentration of revenue, working capital intensive nature of operations and highly regulated & competitive nature of the Gems & Jewellery (G&J) industry.

The rating, however, continues to derive strength from experienced promoters of the company having long track record of operations in the G&J industry, its healthy net-worth base, established brand name of PCJ, in-house Jewellery designing and manufacturing capabilities.

We do hope that the reply is in order. Kindly take the same on record.

Yours sincerely,
For **PC Jeweller Limited**

(SANJEEV BHATIA)
Chief Financial Officer

