

January 19, 2016

| Facility | Amount (Rs. Crore) | Rating |
|-----------------------|--------------------|-------------------------------------|
| Packing Credit | 18.00 | SMERA BBB-/Stable (Assigned) |

Long term rating has been assigned at the request of the client

SMERA has assigned rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) to the above mentioned bank facility of Pinnacle Nexus Limited (PNL). The outlook is '**Stable**'. The rating derives comfort from the qualified and experienced management, above average financial risk profile and healthy growth in revenues. The rating also draws support from the well-established sales channel and diversified customer base. However, the rating is constrained by the working capital intensive operations, foreign exchange fluctuation risk and intense competition in the readymade garment industry.

SMERA has consolidated the business and financial risk profiles of PNL and United Fortune International Private Limited (UFIPL) together referred to as 'The Pinnacle Group'. The consolidation is in view of the common ownership and operational linkages within the group.

The group is run by board members with industry experience of around 15 years. Mr. Sohail Munshi, the Chairman and Managing Director, is a veteran in export, import and international trade while Mr Dattatreya Gole, Director, possesses experience of over 10 years in operations and licencing. Mr. Mahesh Kumar Sharma, Director and Mr. Yaswant Mokal, Director have experience of around 15 years in statutory matters.

The group has a healthy networth of Rs.29.10 crore as on March 31, 2015 with unsecured loans from promoters that will be considered as quasi equity. Going forward, the combined net worth of the group is expected to increase further due to fresh infusion of Rs.9.50 crore equity. The interest coverage ratio is high and stands at 2.90 times as on March 31, 2015 with a healthy DSCR (Debt Service Coverage Ratio) of 2.41 times.

The group's revenue has grown at a CAGR of 95 per cent over a period of three years ending March 31, 2015 with combined revenue of Rs.226.04 crore for FY2015 on account of well-established sales channel and diversified customer base. The group has long term relations with wholesalers in Asia, Dubai and Africa that helps supply readymade garments to retailers across the globe.

The rating is constrained by the group's working capital intensive operations reflected by high utilisation of working capital limits. However, the net cash accruals stood healthy as on March 31, 2015 with no long term liability. The cash and bank balance stood at Rs.2.11 crore.

While the group faces foreign exchange fluctuation risk due to its business model, it has a robust hedging policy to minimise the same. Additionally, the readymade garments industry in India is highly fragmented with numerous unorganised players.

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Rating Sensitivity Factors

- Growth in scale of operations
- Stability of margins
- Effective working capital management

Outlook: Stable

SMERA believes that the group will benefit from the extensive experience of the management. The outlook may be revised to 'Positive' in case the company registers growth in revenue with improvement in profitability while effectively managing the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of more than expected decline in profitability and revenue growth or if the company registers further deterioration in the financial risk profile.

About the Group

The PNL Group is engaged in the export of readymade garments, fabrics, imitation jewellery among others to Africa, Asia and the Middle East. PNL was incorporated in 2007 with Mr. Sohail Munshi as chairman and managing director (CMD) while UFIPL was established in 2011 with Mr. Ahteshman Munshi as CMD.

For FY2014–15, the group registered profit after tax (PAT) of Rs.2.36 crore on operating income of Rs.226.04 crore, as compared with PAT of Rs.1.51 crore on operating income of Rs.113.70 crore for FY2013–14. On standalone basis, PNL registered profit after tax (PAT) of Rs.1.12 crore on operating income of Rs.102.61 crore, as compared with PAT of Rs.0.62 crore on operating income of Rs.56.47 crore for FY2013–14.

Contact List:

| Media/Business Development | Analytical Contact | Rating Desk |
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| Mr. Anthony Jose, Vice President – Business Development, Mid Corporate Tel : +91-22-6714 1191 Cell : +91 9820802479 Email : anthony.jose@smera.in Web: www.smera.in | Mr. Vinay Chhawchharia Associate Vice President - Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in | Tel: +91-22-6714 1184 Email: ratingdesk@smera.in |

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