



SMERA RATINGS LIMITED

Panchagni Energies Private Limited (PEPL)

*Rating
Rationale*

January 15, 2015

Facilities	Amount (Rs. Crore)	Rating
Export Packing Credit	7.50	SMERA A4 (Assigned)
Foreign Bill Purchase	7.50	SMERA A4 (Assigned)

SMERA has assigned a short-term rating of '**SMERA A4' (read as SMERA A four)** to the Rs.15.00 crore bank facilities of Panchagni Energies Private Limited (PEPL). The rating is constrained by the company's short track record of operations and moderate operating scale in a highly competitive and fragmented segment of the textile industry. The rating is also constrained by the company's low profit margins and below-average financial risk profile. The rating notes that the company's operations are working capital-intensive. However, the rating draws comfort from the company's experienced management.

PEPL is a Mumbai-based company engaged in manufacturing and export of fabrics and garments since September 2012. PEPL has moderate-scale operations marked by revenues of Rs.42.86 crore in FY2013-14 (refers to financial year, April 01 to March 31). The company faces intense competition from several players in the textile industry. PEPL's net profit margin is low at 0.82 per cent in FY2013-14. The company's profit margins are susceptible to forex fluctuation risk inherent in unhedged export receivables.

PEPL's below-average financial risk profile is marked by high gearing (debt-to-net worth ratio) of 2.73 times as on March 31, 2014 and low interest coverage ratio of 1.41 times in FY2013-14. The company's collection period is stretched at ~221 days, which has resulted in extended working capital cycle of ~170 days in FY2013-14. PEPL has fully utilized its working capital limits during the period under study.

PEPL benefits from its experienced management. Mr. Rajiv Kachra, director of PEPL, has around 29 years of experience in the textile industry.

About the company

PEPL is a Mumbai-based company incorporated in 2000. PEPL was engaged in trading of auto components. The company was taken over by Mr. Rajiv Kachra and Mr. Amar Thakkar in 2012 and subsequently the line of business was changed to manufacturing and export of fabrics, scarves, duppattas, kurtis, dress material and sarees. PEPL outsources the manufacturing activity.

For FY2013-14, PEPL reported net profit after tax of Rs.0.35 crore on operating income of Rs.42.86 crore, as compared with net profit after tax of Rs.0.05 crore on operating income of Rs.6.18 crore in FY2012-13. The company registered revenue of Rs.48.77 crore (provisional) during April 01, 2014

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to December 18, 2014. PEPL's net worth stood at Rs.5.35 crore as on March 31, 2014, as compared with Rs.1.66 crore a year earlier.

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