



SMERA RATINGS LIMITED

Mukti Gold Private Limited (MGPL)**Rating
Rationale****January 30, 2015**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	5.00	SMERA BB-/Stable (Assigned)
Cash Credit (proposed)	2.50	SMERA BB-/Stable (Assigned)

**Includes Bank Guarantee as a sublimit to the extent of Rs. 4.00 Crore.*

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.7.50 crore bank facilities of Mukti Gold Private Limited (MGPL). The outlook is '**Stable**'. The rating draws comfort from the company's experienced management, reputed clientele and strong revenue growth. However, the rating is constrained by the company's small-scale operations and low profitability amidst intense competition in the wholesale jewellery business. The rating is also constrained by the company's moderate financial risk profile and working capital-intensive operations. The rating notes that the company's business is susceptible to volatility in gold prices and unfavourable changes in gold import policies.

MGPL was established as a proprietorship concern in 2001 and converted into a private limited company in April 2012. MGPL undertakes manufacturing and trading of gold and diamond-studded jewellery. The company outsources processing activity to job workers. MGPL benefits from its experienced management. Mr. Dinesh Jain and Mr. Mahendra Jain, directors of MGPL, have around 15 years of experience in the gems and jewellery industry. MGPL deals with reputed jewellery retailers in India. The company's revenues have grown at a strong compound annual growth rate (CAGR) of 58 per cent during FY2009-10 (refers to financial year, April 01 to March 31) to FY2013-14.

MGPL has small-scale operations marked by operating income of Rs.43.60 crore in FY2013-14. The company's low profitability is reflected in operating profit margin of 2.32 per cent and net profit margin of 1.00 per cent in FY2013-14. MGPL faces intense competition from several players in the wholesale jewellery segment. The company's moderate financial risk profile is marked by low net worth of Rs.2.34 crore and debt-equity ratio of 2.54 times as on March 31, 2014. The company's interest coverage stood at 3.18 times in FY2013-14. SMERA believes MGPL's interest coverage ratio may decline on account of increase in fund-based working capital requirements over the medium term.

MGPL's operations are working capital-intensive. The company's average bank limit utilisation is moderate at ~78 per cent for the six months ended December 31, 2014. MGPL's profit margins are susceptible to volatility in gold prices. The company's business is also exposed to unfavourable changes in gold import policies.

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Mukti Gold Private Limited (MGPL)

**Rating
Rationale**

Rating sensitivity factors

- Ability to scale up operations while maintaining stable profitability
- Working capital management and bank limit utilisation

Outlook: Stable

SMERA believes MGPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the company

MGPL was established as a proprietorship concern in 2001 and converted into a private limited company in April 2012. MGPL is promoted by Mr. Dinesh Jain and Mr. Mahendra Jain. The company undertakes manufacturing and trading of gold and diamond-studded jewellery. MGPL does not have its own processing unit. The company outsources the processing activity to job workers in Mumbai.

For FY2013-14, MGPL reported profit after tax of Rs.0.43 crore on operating income of Rs.43.60 crore, as compared with profit after tax of Rs.0.26 crore on operating income of Rs.33.45 crore in the previous year. Further, the company reported operating income of Rs.39.92 crore (provisional) during April 2014 to November 2014. MGPL's net worth stood at Rs.2.34 crore as on March 31, 2014, as compared with Rs.1.91 crore a year earlier.

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