

**September 28, 2015**

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

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

SMERA has upgraded the long-term rating on Rs.7.50 crore bank facilities of Mukti Gold Private Limited (MGPL) to '**SMERA BB' (read as SMERA double B)** from 'SMERA BB-' (read as SMERA double B minus). The outlook is '**Stable**'.

The upgrade reflects the improvement in MGPL's business risk profile, primarily driven by consistent growth in the company's revenues; the growth is expected to continue going forward. The upgrade also factors the improvement in MGPL's financial risk profile, primarily driven by improvement in the company's leverage and infusion of unsecured loans.

The rating continues to derive support from the company's experienced management, reputed clientele and strong revenue growth. The rating factors the company's moderate financial risk profile. However, the rating is constrained by the company's modest-scale, low profit margins and working capital-intensive operations. The rating is also constrained by MGPL's exposure to fluctuation in gold and diamond prices, and intense competition in the wholesale jewellery business.

Update

For FY2014-15, MGPL reported profit after tax (PAT) of Rs.0.66 crore on operating income of Rs.65.04 crore, as compared with PAT of Rs.0.43 crore on operating income of Rs.43.60 crore in the previous year. For the period 4MFY2015-16, the company reported operating income of Rs.31.37 crore. MGPL is expected to report operating income of close to Rs.78-80 crore in the current financial year.

MGPL's interest coverage stood at 2.58 times in FY2014-15. The company's leverage has significantly improved to 1.66 times as on March 31, 2015, as compared to 2.54 times as on March 31, 2014. The improvement in leverage is mainly on account of increase in net worth to Rs.3.01 crore, as compared to Rs.2.34 crore for the same period. In September 2015, the promoters has infused interest-bearing unsecured loans of Rs.0.75 crore and the same has been treated quasi-

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equity because the funds are subordinated to bank debt and is likely to be retained in the business over the medium term.

MGPL has strong liquidity profile marked by bank limit utilization of ~73 per cent for the period July 2014 to August 2015. The company does not have any long term bank debt as on August 31, 2015 and is unlikely to borrow any long term bank debt over the medium term. MGPL's working capital management has improved, with working capital cycle reducing to around 36 days as on March 31, 2015 from 68 days as on March 31, 2014, backed by improvement in inventory levels and better purchasing terms from suppliers. SMERA expects the working capital cycle to be maintained around 35-40 days over the medium term.

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 and established relationship with its customers. 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.

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SMERA RATINGS LIMITED

Mukti Gold Private Limited (MGPL)

Rating
Rationale

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