

Pentagon Labs Limited: Upgraded

Name of the Instruments	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	4.00	SMERA B/Stable (Upgraded from SMERA D)
Inland/Foreign Letter of Credit	5.00	SMERA A4 (Upgraded from SMERA D)
Proposed Facilities	1.26	SMERA B/Stable (Assigned)
Term Loan I	1.21	SMERA D (Withdrawn)
Term Loan II	0.05	SMERA D (Withdrawn)

SMERA has upgraded the rating on the Rs.9.00 crore bank facilities of Pentagon Labs Limited (PLL) to **'SMERA B' (read as SMERA B)** and short term rating to **'SMERA A4' (read as SMERA A four)**. SMERA has also assigned rating of **'SMERA B' (read as SMERA B)** to the Rs.1.26 crore bank facilities and withdrawn rating of **'SMERA D'** on the Rs.1.26 crore bank facilities. There are no outstanding dues against the aforementioned facilities. The outlook is **'Stable'**.

The ratings derive comfort from the experienced management, stable operating margins and moderate financial risk profile. However, the ratings are constrained by the uneven revenue trend, stretched liquidity position and also factor in the ongoing project risk.

Update

PLL's financial risk profile is moderate marked by gearing (Total outside liabilities/Tangible net worth) of 1.75 times as on March 31, 2015. Further, the interest coverage ratio for FY2014-15 is comfortable at 1.97 times. PLL has maintained stable operating margins during the period under study. The EBITDA margins stood at 5.71 per cent for FY2014-15.

PLL has an uneven revenue trend on account of its tender based business. The company caters mainly to state government organisations. The revenue registered a decline from Rs.46.16 crore in FY2013-14 to Rs.34.58 crore for FY2014-15. As informed by management, the company booked revenue of Rs.47.83 crore (provisional) for FY2015-16. The operations of PLL are working capital intensive as evident from the average bank limit utilisation of 97.73 per cent for six months ended April 2016.

PLL is in the process of doubling its installed capacity to six crore bottles with Form-fill-seal (FFS) technology. The total project cost of Rs.15.00 crore is proposed to be funded by a term loan and own funds in the ratio of 3:2. The financial risk profile of PLL factors in the debt and continues to remain moderate.

PLL has an experienced management team headed by Mr. M. L. Jain (Managing Director), who has around 15 years of experience in the company's line of business.

Rating Sensitivity Factors

- Improving scale of operations while maintaining stable margins
- Efficient working capital management
- Higher than anticipated debt funded capex

Outlook-Stable

SMERA believes that PLL will maintain a stable outlook over the medium term. The outlook may be revised to 'Positive' if the company registers substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenues amidst intensifying competition. Any deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded capex or working capital requirements may also entail a 'Negative' outlook.

Criteria applied to arrive at the ratings

- Manufacturing Entities

About the Company

PLL (formerly known as Kabra Labs Limited) is a Madhya Pradesh-based company incorporated by Mr Jain and family in 1994. The company manufactures intravenous fluids at Dewas, Madhya Pradesh. The overall operations of the company are managed by Mr. M. L. Jain, Mr. Sanjeev Kumar Jain, Mrs. Shobhna Mittal and others.

For FY2014–15, PLL reported net loss of Rs.0.34 crore on operating income of Rs.34.58 crore, as compared with PAT of Rs.0.28 crore on operating income of Rs.46.16 crore in FY2013–14.

Rating History

Date	Name of the Instrument	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
20 May, 2015	Cash Credit	4.00	SMERA D (Assigned)	-	-
	Term Loan 1	1.21	SMERA D (Assigned)	-	-
	Term Loan 2	0.05	SMERA D (Assigned)	-	-
	Inland/Foreign Letter of Credit	5.00	-	SMERA D (Assigned)	-

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ABOUT SMERA

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