

Press Release

Pentagon Labs Limited

May 12, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.26 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 10.26 crore bank facilities of Pentagon Labs Limited. The outlook is '**Stable**'.

Pentagon Labs Limited (PLL) was incorporated in 1994 by Mr Kabra and family. The company is led by Mr. M. L. Jain, Mr. Sanjeev Kumar Jain, Ms Shobhna Mittal among others. PLL is engaged in the manufacturing of I.V. fluids since 2003 at Dewas. The facilities are WHO certified.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

PLL is led by Mr. M.L.Jain (Managing Director) who possesses around two decades of experience in the said line of business.

- **Moderate financial risk profile**

PLL has moderate financial risk profile marked by gearing (debt-to-equity) of 0.38 times as on 31 March 2016 as against 0.39 times in 31 March, 2015. The total debt mainly comprises working capital borrowings. The ICR (Interest coverage ratio) stood at 2.43 times in FY2016 against 1.97 times in FY2015. The tangible net worth stood at Rs.11.68 cr as on 31 March, 2016.

Weaknesses

- **Working capital intensive operations**

PLL has working capital intensive operations reflected in the high Gross Current asset (GCA) days of 244 in FY2016 as compared to 255 days in the previous year. The slight decline in GCA days during FY2016 was mainly on account of a decline in inventory days from 81 days as on March 31, 2015 to 48 days as on March 31, 2016. The receivables days were slightly elevated at 152 days for FY 2015-16 as compared to 123 days in the previous year.

- **Uneven revenue trends**

PLL reported operating income of Rs. 40.97 cr for FY2015-16 as against Rs. 34.58 cr for FY2014-15 as against Rs. 46.16 cr in FY2013-14. The operating income of the firm is uneven due to the tender based nature of business. As informed by management, PLL registered revenue of Rs.39.00 cr till January 2017.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of PLL.

Outlook: Stable

SMERA believes that PLL will continue to maintain a stable outlook and benefit over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected revenue and improved profitability while improving financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or deterioration in the financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2016, PLL reported net profit of Rs.0.37 cr on net sales of Rs.40.97 cr as compared with net loss of Rs.0.34 cr on net sales of Rs.34.58 cr in the previous year. The tangible net worth for FY2016 stood at Rs.11.68 cr.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Jul-2016	Cash Credit	Long Term	INR 4	SMERA B / Stable
	Inland/Foreign Letter of Credit	Short Term	INR 5	SMERA A4
	Proposed Facilities	Long Term	INR 1.26	SMERA B / Stable
	Term Loan I	Long Term	INR 1.21	SMERA D
	Term Loan II	Long Term	INR 0.05	SMERA D
20-May-2015	Cash Credit	Long Term	INR 4	SMERA D
	Term Loan I	Long Term	INR 1.21	SMERA D
	Term Loan II	Long Term	INR 0.05	SMERA D
	Inland/Foreign Letter of Credit	Short Term	INR 5	SMERA D

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA B / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.26	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4

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ABOUT SMERA

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