

Press Release

Penta Gold Limited (Previously known as Penta Gold Private Limited)

September 19, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 38.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 38.00 cr. bank facilities of Penta Gold Limited (PGL). The outlook is '**Stable**'.

Ahmedabad based Penta Gold Limited (PGL) was incorporated in 2012 as Penta Gold Private Limited, further the constitution was changed in March 2017 to Penta Gold Limited. The company was incorporated by Mr. Ketan Shroff and family. The company is engaged in manufacturing and trading of gold jewellery. The company sells its products in domestic as well as exports to countries like UAE, USA, Hong Kong among others. The company has come up with IPO in May 2018 and has raised Rs.13.32 crore from the same.

Key Rating Drivers

Strengths

- **Experienced management**

The company was incorporated in 2012 and is engaged in manufacturing of gold jewellery. The company is promoted by Mr. Ketan Shroff. Mr. Ketan Shroff is a joint secretary of Indian Bullion and Jewellers Association Limited and also possesses experience of around three decades in the jewellery industry. The company leverages the promoter's experience to procure work orders and execute them successfully in the domestic and international markets.

- **Moderate Working capital management**

PGL operates in a moderate working capital intensive nature of business marked by Gross Current Asset (GCA) days of 106 days for FY2018 as against 116 for FY2017. The inventory and debtor days has remained comfortable at 73 and 30 days respectively for FY2018 as against 55 and 57 respective for the previous year. Having said that the company has 2 retail chains, the inventory levels are expected to remain at same level in future. Further, the working capital facility is fully utilized for last three months ending July, 2018.

Weaknesses

- **Moderate Financial Risk Profile**

The financial risk profile of the company is moderate marked by net worth of Rs.25.56 crore (including quasi equity of Rs.8.00 crore) as on 31 March 2018 as against Rs.23.89 crore (including quasi equity of Rs.8.00) as on 31 March 2017. Gearing (debt-equity) stood at 1.66 times as on 31 March 2018 as against 1.61 times as on 31 March 2017. The total debt of Rs.42.36 crore as on 31 March 2018 comprises of interest free loans from directors of Rs.0.27 crore, term loan from financial institution of Rs.3.81 crore and working facility from bank of Rs.38.07 crore. Interest coverage ratio stood at 1.59 times for FY2018 as against 1.66 times for FY2017. Total outside liabilities to tangible net worth stood at 1.86 times as on 31 March 2018 as against 2.21 times in the previous year. Debt-EBITDA stood high at 5.12 times for FY2018 as against 5.46 times for FY2017.

Going ahead, as the company has raised Rs.13.32 crore from IPO in May, 2018, the financial risk profile of the company is expected to improve. TOL/TNW is expected to remain at around 1.50x times in near to medium term.

- **Uneven revenue trend and profitability**

The revenues of the company have remained uneven during the period under study. The revenue stood at Rs.225.85 crore for FY2017 as against Rs.241.95 crore for FY2016. Further, the company has booked revenue of Rs.239.95 crore in FY2018. The operating margins of the company have also remained uneven. The EBITDA margin for FY2017 stood at 2.07 per cent as against 2.54 per cent in FY2016. Further, in FY2018 the EBITDA margin stood at 3.39 per cent. The fall in EBITDA margin in FY2017 was due to increase in administrative cost by ~Rs.0.42 crore and increase in job work expenses. The administrative expenses incurred in FY2017 were for the IPO proceeds.

- **Susceptibility to fluctuation in gold price and foreign currency**

The raw material cost constitutes to ~97 per cent of its total operating cost. The company's profitability is susceptible to gold price movements. The company also operates in a highly competitive and fragmented gems and jewellery industry and faces competition from a large number of organised as well as unorganised players. The company is exposed to volatility in gold prices. The raw material is procured from the domestic market. The company derives over 22 per cent of its revenues from export sales. Hence, the profits are susceptible to fluctuations in forex rates. Further, the risk is mitigated at certain extent as the company hedges the foreign currency.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PGL to arrive at this rating.

Outlook: Stable

Acuite believes that PGL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of substantial increase in revenues and profitability while sustaining its liquidity position and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue, profit margins or deterioration in the financial risk profile. Elongation of working capital cycle may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	239.95	225.85	241.95
EBITDA	Rs. Cr.	8.13	4.68	6.15
PAT	Rs. Cr.	1.67	1.69	1.87
EBITDA Margin	(%)	3.39	2.07	2.54
PAT Margin	(%)	0.69	0.75	0.77
ROCE	(%)	12.50	12.53	27.13
Total Debt/Tangible Net Worth	Times	1.66	1.61	1.15
PBDIT/Interest	Times	1.59	1.66	1.81
Total Debt/PBDIT	Times	5.12	5.46	3.84
Gross Current Assets (Days)	Days	106	116	90

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

India Ratings, vide its press release dated May 31, 2018 had denoted the rating of PGL as 'IND BBB-/Stable/IND A3; ISSUER NOT COOPERATING' on account of lack of adequate information required for reviewing of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
23 Jun 17	Cash Credit	Long Term	23.00	ACUITE BB (Indicative)
23 Feb 16	Cash Credit	Long Term	23.00	ACUITE BB / Stable
30 Jan 15	Cash Credit	Long Term	23.00	ACUITE BB / Stable
10 Jan 14	Cash Credit	Long Term	8.00	ACUITE BB- / Stable
	Proposed Cash Credit	Long Term	12.00	ACUITE BB- / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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