

January 10, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	8.00	SMERA BB-/Stable (Assigned)
Cash Credit (Proposed)	12.00	SMERA BB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as SMERA double B minus) to the Rs.20.00 crore bank facilities of Penta Gold Private Limited (PGPL). The outlook is '**Stable**'. The rating is constrained by the company's short track record of operations, revenue concentration risk and low profitability. The rating is also constrained by the company's exposure to volatility in gold prices and unfavourable changes in gold import policy. The rating factors in the risks associated with the company's working capital-intensive operations. However, the rating is supported by the company's experienced management and moderate financial risk profile.

PGPL, incorporated in March 2012, is a Mumbai-based company engaged in trading of gold bars and gold jewellery. The company commenced operations in November 2012. PGPL is exposed to revenue concentration risk as the company derived ~90 per cent of its total sales from trading of gold bars. PGPL reported low net profit margin of 0.27 per cent (provisional) in H12013-14 (refers to the period, April 01 to September 30). The company's profit margins are susceptible to volatility in gold prices. However, PGPL has adopted proactive risk management techniques to partially mitigate raw material price volatility.

PGPL's business is exposed to unfavourable changes in government policy on gold imports. The company discontinued trading of gold bars in December 2013. However, the management plans to undertake bullion trading under another entity — Penta Bullion LLP. PGPL's operations are working capital-intensive. The company's average bank limit utilisation is high at ~96 per cent over the 12 months ended November 30, 2013.

PGPL benefits from its experienced management. Mr. Ketan M. Shroff, Director of PGPL, has around two decades of experience in the gems and jewellery industry. PGPL's leverage stands at 2.40 times as on September 30, 2013. The company's total debt of Rs.14.28 crore (as on September 30, 2013) includes unsecured loans of Rs.6.60 crore from promoters. Consequently, retention of the unsecured loans in the business will be a key rating sensitivity. PGPL's interest coverage ratio stood at 4.96 times in H12013-14. SMERA believes PGPL's interest coverage ratio may decline with increase in the company's debt levels.

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Outlook — Stable

PGPL has a stable outlook. SMERA believes the company will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving a sustained improvement in profit margins or in case of improvement in the company's capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues and profit margins or in case of deterioration in the company's capital structure on account of large debt-funded capital expenditure or higher-than-expected working capital requirements.

About the company

PGPL, incorporated in March 2012, is a Mumbai-based company promoted by Mr. Ketan M. Shroff and Mr. Pinakin M. Shroff. PGPL is engaged in trading of gold bars and gold jewellery. The company commenced operations in November 2012. PGPL outsources processing work to job workers. The company has two showrooms in Mumbai and Ahmedabad.

For FY2012-13 (with five months of operations), PGPL reported PAT of Rs.0.59 crore on net sales of Rs.263.00 crore. Further, in H12013-14, the company reported net sales of Rs.578.21 crore (provisional). PGPL's net worth stood at Rs.5.95 crore (provisional) as on September 30, 2013, as compared with Rs.3.83 crore as on March 31, 2013.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Sanjay Kher Head - Sales - Corporate Ratings Tel : +91-22-67141193 Cell : +91-9819136541 Email : sanjay.kher@smera.in Web: www.smera.in	Mr. Umesh Nihalani Head - Corporate Ratings Tel: +91-22-67141106 Cell: +91-9833651336 Email: umesh.nihalani@smera.in	Tel:+91-22-67141170 Email: ratingdesk@smera.in