



SMERA RATINGS LIMITED

Penta Gold Private Limited (PGPL)**Rating
Rationale****January 30, 2015**

Facility	Amount (Rs. Crore)	Rating
Cash Credit	23.00 (enhanced from Rs.20.00 crore)	SMERA BB/Stable (upgraded from SMERA BB-/Stable)

SMERA has upgraded the bank loan rating of Penta Gold Private Limited (PGPL) to '**SMERA BB**' (read as **SMERA double B**) from '**SMERA BB-**'. The outlook is '**Stable**'.

The upgrade reflects improvement in the company's capital structure on account of equity infusion. The rating continues to draw comfort from the company's moderate financial risk profile and experienced management. However, the rating remains constrained by the company's short track record of operations and low operating profitability amidst intense competition in the wholesale jewellery business. The rating notes that the company's business is susceptible to volatility in gold prices and unfavourable changes in gold import policies. The rating also factors in the risks associated with the company's working capital-intensive operations.

Update

PGPL's promoters have infused equity capital of Rs.4.25 crore in the company during FY2013-14 (refers to financial year, April 01 to March 31). The company's tangible net worth stood at Rs.9.49 crore as on March 31, 2014, as compared with Rs.3.83 crore a year earlier. PGPL's leverage (total debt-equity ratio) has improved to 2.14 times as on March 31, 2014, as compared with 3.14 times a year earlier.

PGPL's moderate financial risk profile is reflected in interest coverage ratio of 2.33 times and net cash accruals of Rs.1.50 crore in FY2013-14. SMERA believes PGPL's interest coverage ratio may decline on account of increase in fund-based working capital requirements. However, the company will maintain its moderate financial risk profile on the back of steady accretion to reserves over the medium term. PGPL's total debt of Rs.39.34 crore (as on November 30, 2014) includes interest-free unsecured loans of Rs.16.45 crore from promoters. Retention of the unsecured loans in the business is a key rating sensitivity.

PGPL continues to benefit from its experienced management. Mr. Ketan M. Shroff, director of PGPL, has around two decades of experience in the gems and jewellery industry.

PGPL reported low operating profit margin of 0.40 per cent in FY2013-14. The company's profit margins are susceptible to volatility in gold prices. However, the management adopts hedging techniques to partially offset the impact of raw material price volatility. PGPL faces intense competition from several players in the wholesale jewellery segment.

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Rating Rationale

The company's business remains exposed to unfavourable changes in gold import policies. PGPL has discontinued trading of gold bars during FY2014–15. However, the management is undertaking bullion trading under another entity viz. Penta Bullion LLP. PGPL's operations are working capital-intensive. The company's average bank limit utilisation is high at ~97 per cent for the six months ended December 31, 2014.

Rating sensitivity factors

- Ability to scale up operations while maintaining stable profitability
- Working capital management and bank limit utilisation

Outlook: Stable

SMERA believes PGPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. 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

PGPL, incorporated in March 2012, is a Mumbai-based company promoted by Mr. Ketan M. Shroff and Mr. Pinakin M. Shroff. PGPL undertakes trading of gold jewellery. The company started commercial operations in November 2012. PGPL does not have its own processing unit. The company outsources processing activity to job workers. PGPL has two showrooms, one in Mumbai and the other in Ahmedabad.

For FY2013–14, PGPL reported profit after tax of Rs.1.41 crore on operating income of Rs.838.95 crore, as compared with profit after tax of Rs.0.59 crore on operating income of Rs.263.00 crore in the previous year. Further, the company reported operating income of Rs.139.21 crore (provisional) during April 2014 to November 2014. PGPL's net worth stood at Rs.9.49 crore as on March 31, 2014, as compared with Rs.3.83 crore a year earlier.

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Media/Business Development	Analytical Contacts	Rating Desk
Mr. Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Email: antony.jose@smera.in Web: www.smera.in	Mr. Ashutosh Satsangi Vice President – Rating Operations Tel: +91-22-6714 1107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-6714 1128 Email: ratingdesk@smera.in

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