



SMERA RATINGS LIMITED

Penta Gold Private Limited (PGPL)

**Rating
Rationale****February 23, 2016**

Facility	Amount (Rs. Crore)	Rating
Cash Credit	23.00	SMERA BB/Stable (Reaffirmed)

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.23.00 crore bank facilities of Penta Gold Private Limited (PGPL). The outlook is '**Stable**'. The rating continues to draw comfort from the company's experienced management and moderate financial risk profile marked by improvement in profitability margins. However, the rating remains constrained by the company's limited track record of operations, working capital intensive operations and high bank limit utilization. The rating notes that the company's business is susceptible to volatility in gold prices and unfavourable changes in gold import policies.

Update

PGPL has registered revenues of Rs.235.39 crore in FY2015 as compared to Rs.839 crore in the previous year. For the period April 2015 - January 2016, PGPL reported revenues of Rs.203 crore.

PGPL has shown improvement in its operating profit margins of 1.97 per cent in FY2014-15 as against 0.40 per cent in the previous year due to discontinuation of bullion trading business. PGPL's moderate financial risk profile is reflected in interest coverage ratio of 1.94 times and net cash accruals of Rs.1.77 crore in FY2014-15. However, the company is expected to maintain its moderate financial risk profile on the back of steady accretion to reserves over the medium term. PGPL's leverage (total debt-equity ratio) has marginally deteriorated to 2.40 times as on March 31, 2015, as compared with 2.14 times a year earlier. PGPL's operations remained working capital-intensive. The company's average bank limit utilisation is high at ~99 per cent for the six months ended January 31, 2016.

Rating sensitivity factors

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

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Rationale**

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 FY2014-15, PGPL reported profit after tax of Rs.1.59 crore on operating income of Rs.235.39 crore, as compared with profit after tax of Rs.1.41 crore on operating income of Rs.838.95 crore in the previous year. PGPL's net worth stood at Rs.11.08 crore as on March 31, 2015, as compared with Rs.9.49 crore a year earlier.

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