

May 24, 2016

Facility	Amount (Rs. Crore)	Ratings
Export Packing Credit	2.50*	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Standby Line Credit	2.75	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Foreign Bill Discounting (Non LC)	12.65*#@ (enhanced from Rs.7.65)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Bank Guarantee	0.05	SMERA A3 (Upgraded from SMERA A4+)
Forward Contracts	0.80 (enhanced from Rs.0.20)	SMERA A3 (Upgraded from SMERA A4+)
Letter of Credit	6.00	SMERA A3 (Upgraded from SMERA A4+)
Proposed Export Packing Credit	0.04 (revised from Rs.0.89)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)

* Fully interchangeable between Foreign Bill Discounting (Non-LC) and Export Packing Credit.

#One way interchangeability from Foreign Bill Discounting (Non-LC) to Letter of Credit to the extent of Rs.2.00 crores

@includes Foreign Bill Discounting (Non-LC) Direct dispatch as a sublimit under Foreign Bill Discounting (Non-LC)

SMERA has upgraded the long term rating to '**SMERA BBB-**' (read as **SMERA triple B minus**) from '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating to '**SMERA A3**' (read as **SMERA A three**) from '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of Gemini Enterprises (GE). The outlook is '**Stable**'.

The rating upgrade reflects the firm's healthy revenue growth and above average financial risk profile. The rating continues to drive strength from the experienced promoters and long track record of operations in leather manufacturing business. The ratings are also strengthened by the reputed clientele and moderate profit margins. However, the rating continues to be constrained by the geographical and customer concentration risk, forex fluctuation risk and intense competition in the leather industry.

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Update

GE's revenues for FY2014-15 (refers to financial year, April 01 to March 31) stood at Rs.130.71 crore as against Rs.143.09 crore in FY2013-14. However, GE registered revenue of Rs.170 crore in FY2015-16 (provisional). GE's above average financial risk profile is marked by gearing (debt-capital ratio) of 0.78 times as on March 31, 2015 and interest coverage ratio of 2.79 times in FY2014-15. The firm funded its capacity expansion from 250,000 pieces in FY2013-14 to 275,000 pieces in FY2014-15, through internal accruals.

GE's operating margin declined from 5.59 per cent in FY2013-14 to 5.19 per cent in FY2014-15. The firm's profit margins are susceptible to volatility in prices of leather and forex. GE is exposed to customer concentration risk as sales to top two clients account for ~80 per cent of its total revenue. The firm faces intense competition from several players in the leather apparels business.

Outlook: Stable

SMERA believes that GE will continue to benefit over the medium term from its promoters extensive experience in the industry. The outlook may be revised to 'Positive' in case the firm is able to register healthy revenues and sustain its profitability. Conversely, the outlook will be revised to 'Negative' in case of significant decline in the firms' revenue and profit margins.

Rating Sensitivity Factors

- Scaling up of operations while maintaining profitability
- Diversifying customer base
- Efficient working capital management

About the Company

GE, established in 1989, is a Chennai-based partnership firm engaged in manufacturing and export of leather jackets. The firm has four factory units in Chennai, with total production capacity of 275,000 pieces per annum and caters to customers in Spain and Germany.

For FY2014-15, GE reported profit after tax (PAT) of Rs.2.60 crore on operating income of Rs.130.71 crore, as compared with PAT of Rs.3.70 crore on operating income of Rs.143.09 crore in FY2013-14.

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SMERA RATINGS LIMITED

Gemini Enterprises (GE)

Rating
Rationale

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