

Press Release

Gemini Enterprises

January 04, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.26.79 Cr (Enhanced from Rs.24.79 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.24.79 crore bank facilities and assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs.2.00 crore bank facility. The outlook is '**Stable**'.

GE is a Chennai based partnership firm established in 1989. The firm is promoted by Mr. A Sekar who has nearly three decades of experience in leather garments business. The firm is involved in processing and exporting of finished leather and leather garments, mainly leather jackets. It is a 100 percent export-oriented unit. It has six units, located in Chennai with an installed capacity to produce 2.75 lac leather garments per annum. GE products are exported to over 20 countries including Spain, Germany, Italy, France, USA, Portugal and U.A.E, among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GE to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced promoter

The firm established in 1989 is involved in manufacture and export of leather-jackets for nearly three decades. The promoter is a veteran in the industry with long-standing experience which lead to steady revenues. Acuité believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

• Strong customer base characterised by renowned international players and reputed brands

GE exports leather garments to reputed global clients including ITX Trading (SPAIN), Hugo Boss (Germany). They contribute to around 80 percent of the total revenues. GE has well-established relationships with these customers which helped the firm in winning repeat orders from these brands. Revenue concentration risk is a key rating sensitivity factor despite repeat business orders and longstanding relationship with the clientele.

• Healthy financial risk profile

GE has healthy financial risk profile characterised by healthy gearing (debt-to-equity), moderate total outside liabilities to total net worth (TOL/TNW) and strong coverage indicators. Gearing is healthy at 0.26 times as on March 31, 2018 improved from 0.60 times in FY2017, due to healthy cash accruals and marginal debt levels. TOL/TNW is moderate at around 1.46 times in FY2018 against 3.48 times in FY2017. Net worth is moderate at Rs.20.15 crore as on March 31, 2018. The debt-coverage indicators also remain robust as reflected by interest coverage ratio (ICR) of 5.65 times and net cash accrual to total debt (NCA/TD) of 1.85 times for FY2018. Acuité believes that with strong capital structure and low reliance on debt, the financial risk profile will continue to be at similar levels over the medium term.

- **Efficient working capital management**

GE's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 54 -92 days historically, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days of less than a month is majorly driven by suppliers near the factory, and the firm extends credit of about two months to its clientele. This results in low reliance on bank lines at about 17 percent over six months through October 2018. Acuité believes that GE's operation will continue to be efficiently managed supported by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

- **Exposure to foreign exchange rate fluctuation**

The firm's profitability is susceptible to adverse changes in foreign currency. Since the firm engages in both import and export activities, the forex risk is naturally hedged to some degree. The balance foreign currency exposure is hedged by forward cover with sanctioned limits of Rs.0.80 crore. However, it reported forex gain of Rs. 0.17 crore in FY2018.

- **Stagnant operating income and susceptibility of revenue to demand in export markets**

GE reported revenues of Rs.164.10 crore in FY2018 against Rs.168.67 crore in FY2016. The reported revenues are almost stagnant for the last three years at similar levels. The high geographical concentration with continued dependency on European nations exposes the firm to risks arising from adverse regional developments. Also, the customer concentration remains high with top-five customers accounting for up to 90 percent of the firm's total revenues. Any drop in volumes or orders from any of these major customers is likely to adversely affect its revenues and profitability.

- **High competition in the industry limits the bargaining power of the exporters**

Leather industry is characterised by high competition due to presence of large number of small to medium sized players. The firm has to compete not only with other domestic players, but also with manufactures in overseas market of China, Pakistan and Bangladesh. The intense competition limits the ability of the firm to pass on the volatility of the raw material prices and forex loss to its customers entirely, while pricing the products.

Outlook: Stable

Acuité believes that GE will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of higher than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	164.10	165.19	168.67
EBITDA	Rs. Cr.	11.38	10.04	10.23
PAT	Rs. Cr.	5.38	4.79	5.05
EBITDA Margin	(%)	6.94	6.08	6.06
PAT Margin	(%)	3.28	2.90	2.99
ROCE	(%)	35.57	36.22	47.66
Total Debt/Tangible Net Worth	Times	0.58	1.00	1.19
PBDIT/Interest	Times	5.65	5.04	4.81
Total Debt/PBDIT	Times	0.99	1.28	1.32
Gross Current Assets (Days)	Days	54	92	68

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16- Nov-2018	Packing Credit	Long Term	2.50	ACUITE BBB- (Indicative)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB- (Indicative)
	Bills Discounting	Long Term	12.65	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Indicative)
	Proposed Short Term Loan	Short Term	0.80	ACUITE A3 (Indicative)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Indicative)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB- (Indicative)
23-Oct-2017	Packing Credit	Long Term	2.50	ACUITE BBB-/Stable (Reaffirmed)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB-/Stable (Reaffirmed)
	Bills Discounting	Long Term	12.65	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Proposed Short Term Loan	Short Term	0.80	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB-/Stable (Reaffirmed)
24-May-2016	Packing Credit	Long Term	2.50	ACUITE BBB-/Stable (Upgraded)
	Cash Credit	Long Term	2.75	ACUITE BBB-/Stable (Upgraded)
	Bills Discounting	Long Term	12.65	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Upgraded)
	Derivative Exposure	Short Term	0.80	ACUITE A3 (Upgraded)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Upgraded)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB-/Stable (Upgraded)

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.50*	ACUITE BBB- /Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BBB- /Stable (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	12.65 *#@	ACUITE BBB- /Stable (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00*#@	ACUITE BBB- /Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 (Reaffirmed)
Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE BBB- /Stable (Reaffirmed)

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

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

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

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuite.ratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.