

Press Release

Gemini Enterprises

March 24, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.27.00 Cr (Enhanced from Rs.26.79 Crs)
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**) on the Rs.27.00 crore bank facilities of GEMINI ENTERPRISES (GE). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates, long- operating history of the company and vast experience of its promoters in Leather industry, established market position and healthy financial risk profile. These strengths are partially offset by the moderate scale of operations in an intensely competitive segment and susceptibility to volatility in raw material prices and foreign exchange (forex) rates.

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 across Tamilnadu with combined 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 over 70 percent of the total revenues. GE has well-established relationships with these customers, which helped the firm in winning repeat orders from these brands. GE's has reported revenues of Rs.169.54 crores in FY2019 up by 3.30 % against Rs.164.10 crores in FY2018. Further GE has reported an operating income of about Rs.145.00 crore for 9M2020 (provisional). However 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), total outside liabilities to total net worth (TOL/TNW) and strong coverage indicators. Gearing is healthy at 0.83 times as on March 31, 2019 as against from 0.58 times as on March 31, 2018. TOL/TNW is moderate at around 1.73

times as on March 31, 2019 as against from 1.46 times as on March 31, 2018 ;owing to less reliance on external debt and moderate net worth of Rs.19.95 crore as on March 31, 2019. The debt-coverage indicators also remain strong, as reflected by interest coverage ratio of 6.22 times and net cash accrual to total debt of 0.41 times for FY2019 as against 5.65 times and 0.58 times for FY2018.

Acuité believes that with strong capital structure, low reliance on debt, the financial risk profile continues to be at similar levels despite moderate accruals owing to regular withdrawal of capital by the partners. In the absence of any large, debt-funded capital expenditure (capex) over the medium term, the financial risk profile should remain healthy.

- **Efficient working capital management**

GE's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 63-92 days historically through FY2019, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days of about three weeks which is due to manufacture of product based on buying decision of the customer and the firm extends credit of about two months to its clientele. However, it has unencumbered cash and bank balances of about Rs.11.55 crore as of March 31, 2019 gives flexibility. Its working capital limits were utilised at an average of around ~70 percent over the 11 months ended February 2020. Acuité believes that GE's operation continue to be at efficient levels supported by reputed clientele with timely payments, minimal inventory levels and support from creditors.

Weaknesses

- **Exposure to foreign exchange rate fluctuation**

The firm's profitability is exposed to foreign exchange rate fluctuation; however, the risk is mitigated to an extent by the benefit of natural hedge and through forward contracts. 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. 1.00 crore.

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

GE reported revenues of Rs.169.54 crore in FY2019 against Rs.164.10 crore in FY2018, Rs.165.19 crore in FY2017. The reported revenues are almost stagnant for the last three years at similar levels. The high geographical concentration with continued dependence on European nations exposes the company to risk arising from adverse regional developments. Also, the customer concentration remains high with top-five customers accounting for up to 60% of the company's total revenue. The loss of any of these major customers or reduction in the volume of the apparels they source from the company, would adversely affect its revenue 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 manufacturers 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.

Rating Sensitivity

- Decline in revenue or profitability by more than 300 basis points
- Sustenance of financial risk profile, supported by efficient working capital management and absence of debt funded capex

Material covenants

None

Liquidity Position: Adequate

GE has adequate liquidity marked by moderate net cash accruals as against which the firm has no repayment obligations. It has generated cash accruals of Rs.5.75 to 6.75 crore during the last three years through 2017-19, while its maturing debt obligations were NIL during the same period. The cash accruals are estimated to remain around Rs.6.00-7.00 crore during 2020-22 while its repayment obligation are estimated to be nil in the absence of no major significant debt-funded capex plans over the medium term. GE's operations are efficiently managed marked by gross current asset (GCA) days of 63-82 over the three years ended March 31, 2019. Its working capital borrowings utilized at ~70 percent during the last 11 months period ended February 2020. The partners withdraw capital to the tune of annual profits. However, liquidity is partly supported by fixed deposits of about Rs.11.50 crores as of March 31, 2019

gives flexibility and its current ratio stands moderate 1.19 times for fiscal 2018-19. Acuité believes that liquidity profile of GE is continues to be at adequate levels owing to the accruals and the available cushion in the bank limits would be adequate to meet the incremental working capital requirements.

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 any sharp decline in the revenues or profitability or significant withdrawal of capital leading to further stretch in its creditors and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	169.54	164.10
PAT	Rs. Cr.	5.43	5.38
PAT Margin	(%)	3.20	3.28
Total Debt/Tangible Net Worth	Times	0.83	0.58
PBDIT/Interest	Times	6.22	5.65

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jan-2019	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	14.65	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Short Term	Short Term	0.80	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE BBB-/Stable (Reaffirmed)
16- Nov-2018	Proposed Packing Credit	Long Term	0.04	ACUITE BBB-/Stable (Reaffirmed)
	Packing Credit	Long Term	2.50	ACUITE BBB-(Indicative)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB-(Indicative)

23-Oct-2017	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)
	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)

***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	14.65	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 (Reaffirmed)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Reaffirmed)
Proposed Banking Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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