

Press Release

Gemini Enterprises

July 07, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.27.00 Cr
Long Term Rating	ACUITE BBB- /Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its 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 reaffirmation of the ratings factors in the firm's established market position in the global market and partner's long standing experience and an established track record of GE in the manufacturing and export of leather products. Besides, the firm's established relationship with its reputed clientele provides repeated business. However, the ratings remain constrained by the adverse impact of the Covid-19 pandemic, which has led to the significant decline in revenues and accruals in FY2021. The revenues for FY2021 declined by 32 percent to Rs.118 Cr vis-à-vis Rs.174.02 in FY2020. GE sustained a modest growth in its revenues (YoY growth of ~2.65 percent in FY2020). The rating continues to be constrained by high customer concentration risks. Being an export-oriented firm, GE is also exposed to 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 3 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 6 units across Tamilnadu with combined installed capacity to produce 2.75 lakh 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; experienced partners and association with reputed Clientele**

The firm established in 1989, is involved in the manufacture and export of leather-jackets for nearly three decades. The partner is a veteran in the industry with long-standing experience over 3 decades, which leads to steady revenues. GE exports leather garments to reputed global clients including ITX Trading (SPAIN), Hugo Boss (Germany). They contribute over 70 percent of the total revenue. 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.174.02 Cr in FY2020 up by 2.65 percent against Rs. 169.54 Cr in FY2019. Acuité believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in the improvement of its business risk profile over the medium term.

- **Above-average financial risk profile**

GE has above-average financial risk profile characterised by healthy gearing (debt-to-equity), moderate total outside liabilities to total net worth (TOL/TNW) and above-average coverage indicators. Gearing is healthy at 0.34 times as on March 31, 2020 as against 0.83 times as on March 31, 2019. TOL/TNW is moderate at around 1.05 times as on March 31, 2020 as against from 1.73 times as on March 31, 2019 ;owing

to less reliance on external debt and moderate net worth of Rs. 22.86 Cr as on March 31, 2020 as against Rs. 19.95 Cr as on March 31, 2019. The debt-coverage indicators also remain above-average, as reflected by interest coverage ratio of 5.83 times and net cash accrual to total debt of 0.67 times for FY2020 as against 6.22 times and 0.41 times for FY2019. Acuite believes that with healthy capital structure, low reliance on debt, the financial risk profile will continue 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 above-average.

- **Efficient working capital management**

GE's working capital operations are efficiently managed as evident from its Gross Current Assets (GCA) of 47-63 days historically through FY2020, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days are about 20-23 Days and Debtors Days are about 12-34 days over the last 3 years ended with FY2020. It has unencumbered cash and a bank balance of about Rs.11.66 Cr as of March 31, 2020 gives financial flexibility. Its working capital limits were utilised efficiently at ~58 percent over the 6 months ended March 2021. Acuite 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

- **Impact of Covid-19 pandemic on the operating performance**

The ratings remain constrained due to the impact of Covid-19 pandemic on the firms' operating performance, which led to a significant decline in revenues and accruals for the current year. The revenues for FY2021 dipped by 32 % to Rs.118 Cr vis-à-vis Rs.174.02 in FY2020. The reported revenues are almost stagnant for the last three years at similar levels ended with FY2020. Acuite believes that significant improvement of its revenues and profitability and the timing of pickup in demand would remain a monitorable over the medium term.

- **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 Cr. Acuite believes that revenues and profitability remain susceptible to regulatory risks such as changes in duty structure and rate of export incentives, which could potentially impact the competitiveness of its products.

- **High competition in the industry and geographic and customer concentration risk**

Leather industry is characterised by high competition due to presence of large number of small to medium sized players along with intense competition from international suppliers. 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. Further, GE's top five customers account for more than ~90 percent of its sales.

Rating Sensitivity

- Sustained growth in scale of operations along with an improvement in profitability
- 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.5.20 to 6.80 Cr during the last three years through 2018-20, while its maturing debt obligations were NIL during the same period. The cash accruals are estimated to remain around Rs.6.00-7.00 Cr during 2021-22 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 47-63 over the three years ended March 31, 2020. Its working capital borrowings utilized at ~58 percent during the last 6 months period ended March 2021. The liquidity is supported by fixed deposits of about Rs.11.66 Cr as of March 31, 2020 gives flexibility

and its current ratio stands moderate 1.41 times for March 31, 2020. Acuite 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

Acuite 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	174.02	169.54
PAT	Rs. Cr.	3.97	5.43
PAT Margin	(%)	2.28	3.20
Total Debt/Tangible Net Worth	Times	0.34	0.83
PBDIT/Interest	Times	5.83	6.22

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-March-2020	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 A3 (Reaffirmed)
	Proposed Bank facility	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Proposed Banking Facility	Short Term	0.05	ACUITE BBB-/Stable (Reaffirmed)
	Packing Credit	Long Term	2.50	ACUITE BBB-/Stable

04-Jan-2019				(Reaffirmed)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB-/Stable (Reaffirmed)
	Bills Discounting	Long Term	12.65	ACUITE BBB-/Stable (Reaffirmed)
	Bills Discounting	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Proposed Short Term	Short Term	0.80	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB-/Stable (Reaffirmed)
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)

***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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