

Press Release

Gemini Enterprises

October 03, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.95	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	7.05	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	27.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its shortterm 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 track record in the manufacturing and export of leather products with an established position in the global market and partner's long standing experience. . Further, the rating derives comfort from longstanding relationship with reputed clientele, above-average financial risk profile and efficient working capital management . However, the rating continues to be constrained by high customer concentration risks. And being an export-oriented firm, GE is also exposed to susceptibility to volatility in raw material prices and foreign exchange (forex) rates.

About the Company

GE is a Chennai-based partnership firm established in 1989. The firm is promoted by Mr. A Sekar, who has nearly 3decades 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 exportoriented 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

Acuite 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 60 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.154.41 Cr in FY2022(Prov.) against Rs. 118.44 Cr in FY2021, thus registering a Y-o-Y growth of approx. 30.37 percent. 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 and moderate net worth. The net worth of the firm stood at Rs.28.11 Cr and Rs.23.08 Cr as on March 31, 2022(Prov.) and 2021 respectively. The gearing of the firm stood at 0.37 times as on March 31, 2022(Prov.) against 0.27 times as on March 31, 2021. The deterioration in the gearing is because of increase in short debt portion. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 11.29 times and 9.18 times as on March 31, 2022(Prov.) respectively as against 3.35 times and 2.84 times as on March 31, 2021 respectively. The main reason for improvement in Interest coverage ratio (ICR) ratio is because of decrease in interest cost FY2022, where bank has charged less interest rate in FY 2022 for the instruments (Export Packing Credit, Foreign Bill Discounting) and debt service coverage ratio (DSCR) ratio is improved because of improvement in net cash accruals in FY 2022. TOL/TNW (Total outside liabilities/Total net worth) stood at 0.90 times and 1.19 times as on March 31, 2022(Prov.) and 2021 respectively. The debt to EBITDA of the firm stood at 1.16 times as on 31 March, 2022(Prov.) as against 1.43 times as on 31st March, 2021. Acuité believes that the financial risk profile of the company will continue to remain healthy on account of healthy net worth and debt protection metrics.

- **Efficient working capital management**

GE's working capital operations are efficiently managed as evident from Gross Current Asset (GCA) at 59 days as on March 31, 2022(Prov.) as against 93 days as on March 31, 2021, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. Inventory days stood at 28 days as on March 31, 2022(Prov.) as against 51 days as on March 31, 2021. Subsequently, the payable period stood at 57 days as on March 31, 2022(Prov.) as against 102 days as on March 31, 2021 respectively. The debtor day stood at 21 days as on March 31, 2022(Prov.) as against 11 days as on March 31, 2021. Further, the average bank limit utilization in the last six months ended August, 2022 remained at 63 percent for fund based limits. 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 Cr. Acuité 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 ~65 percent of its sales.

Rating Sensitivities

- 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. The firm has generated cash accruals in the range of Rs.6.47 Cr in FY2022, while its maturing debt obligations were NIL during the same period. The current ratio stood at 1.62 times as on March 31, 2022(Prov.) and the fund based limit remains utilised at 63 percent over the six months ended August 31, 2022. The firm maintains unencumbered cash and bank balances of Rs.0.35 Cr as on March 31, 2022(Prov.). 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	154.41	118.44
PAT	Rs. Cr.	5.35	1.25
PAT Margin	(%)	3.46	1.06
Total Debt/Tangible Net Worth	Times	0.37	0.27
PBDIT/Interest	Times	11.29	3.35

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>
- Entities In Manufacturing Sector:- <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jul 2021	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.05	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	2.50	ACUITE BBB- Stable (Reaffirmed)
	Bills Discounting	Long Term	14.65	ACUITE BBB- Stable (Reaffirmed)
24 Mar 2020	Proposed Bank Facility	Long Term	0.05	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Bills Discounting	Long Term	14.65	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Packing Credit	Long Term	2.50	ACUITE BBB- Stable (Reaffirmed)
04 Jan 2019	Standby Line of Credit	Long Term	2.75	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Bills Discounting	Long Term	12.65	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Packing Credit	Long Term	2.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB- Stable (Reaffirmed)
	Proposed Short Term Loan	Short Term	0.80	ACUITE A3 (Reaffirmed)
	Bills Discounting	Long Term	2.00	ACUITE BBB- Stable (Assigned)

16 Nov 2018	Packing Credit	Long Term	2.50	ACUITE BBB- (Issuer not co-operating*)
	Standby Line of Credit	Long Term	2.75	ACUITE BBB- (Issuer not co-operating*)
	Bills Discounting	Long Term	12.65	ACUITE BBB- (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Issuer not co-operating*)
	Proposed Short Term	Short		
	Loan	Term	0.80	ACUITE A3 (Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Issuer not co-operating*)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB- (Issuer not co-operating*)
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)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB- Stable (Reaffirmed)
	Proposed Short Term Loan	Short Term	0.80	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Long Term	12.65	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
24 May 2016	Packing Credit	Long Term	2.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	2.75	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bills Discounting	Long Term	12.65	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Upgraded from ACUITE A4+)
	Derivative Exposure	Short Term	0.80	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Packing Credit	Long Term	0.04	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
19 May 2015	Packing Credit	Long Term	2.50	ACUITE BB+ Stable (Assigned)
	Proposed Packing Credit	Long Term	0.89	ACUITE BB+ Stable (Assigned)
	Bills Discounting	Long Term	7.65	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	2.75	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)
	Derivative Exposure	Short Term	0.20	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.05	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	14.65	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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