

Press Release

Gautam Trade And Commerce Limited

August 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 12.00 crore bank facilities of GAUTAM TRADE AND COMMERCE LIMITED (GTCL). The outlook is '**Stable**'.

Rating reaffirmation reflects long track record of operations, experience of the management and comfortable financial risk profile. However, rating remained constrained by declining revenues year-over-year, profitability, and working capital intensive operations.

GTCL is a Tamil Nadu-based entity incorporated in the year 1983, which is promoted by Mr. Siva Prasad and family. It is engaged in trading of edible oils and granite blocks. The company generates around 80 per cent of its revenues from trading of edible oil mainly from sunflower crude and remaining from the granite sales.

Analytical Approach

Acuite has considered standalone business and financial risk profiles of GTCL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

GTCL is promoted by Mr. Sivaprasad and family, who have been in the trading activity business for over three decades. They are also the promoters of the group company named 'Perfect Stone Limited', which is also engaged in trading of crude edible oils and jelly fish. GTCL imports sunflower oil and supplies it in the domestic market. Granite blocks are procured locally and sold in the export market namely China and Japan.

• Comfortable financial risk profile

Financial risk profile of the company is comfortable marked by comfortable gearing (Debt-to-equity ratio), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. Gearing and TOL/TNW are comfortable at 0.03 times and 0.51 times in FY2019 (Provisional) as against 0.57 times and 0.69 times in FY2018, respectively. Its net worth improved to Rs.26.05 crore in FY2019 (Provisional) as against Rs.11.71 crore in FY2018, due to accumulated profit on account of profit on sale of land. It made a profit of about Rs.14.00 crore on land acquisition by the government. Of the total debt of Rs.0.81 crore as on 31 March, 2019 (Provisional), long term debt constitutes Rs.0.77 crore and short term debt of Rs.0.04 crore. Debt protection metrics of interest coverage and net cash accruals to total debt stood at 35.46 times and 0.51 times in FY2019 (Provisional) as against 1.28 times and 0.02 times in FY2018, respectively. The company did a capital expenditure of Rs.1.40 crore to purchase land of Rs.0.62 crore and remaining amount to purchase vehicles. Acuite believes that the financial risk profile is expected to be at similar level as the company is not planning for any significant capex or debt plans for working capital requirements.

Weaknesses

• Modest scale of operations and decline in operating profitability

GTCL's scale of operation is modest with revenue of Rs.18.23 crore in FY2019 (Provisional), while declining year-over-year from Rs.21.20 crore in FY2018 and Rs.21.16 crore in FY2017. Further, operating margins declined to 0.11 per cent in FY2019 (Provisional) as against 2.39 percent in FY2018 due to fluctuations in raw material and currency rate. However, the company reported high net profit of Rs.14.33 crore in FY2019 (Provisional) as against Rs.0.06 crore in FY2018, due to profit on sale of land of Rs.14 in FY2019. Ability of the company to increase the scale of operations and profitability would be the key rating factor over the medium term.

• Working capital intensive operations

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 591 days in FY2019 (Provisional) as against 311 days in FY2018 due to stretch in debtors and high trade advances. Debtors stood high at 118 days in FY2019 (Provisional) as against 3 days in FY2018. The same led to high utilisation of bank lines at 90-95 per cent for the last six months through June 2019. Acuité believes that operations are expected to working capital intensive over the medium term.

• Exposure to group entities

The company has given advances of Rs.13.94 crore as on 31 March, 2019 (Provisional) as against Rs.13.23 crore in FY2018 to its group entities namely 'Perfect Stone Limited' and 'G Tech Stone Limited'. Any further investments in the group entity may affect the liquidity profile of GTCL.

Liquidity Position:

Liquidity of the company is stretched marked by modest operating profitability and working capital intensive operations. Though the company reported net cash accruals of Rs.14.38 crore in FY2019, the same is on account of profit on sale of land Rs.14 crore. The company reported loss before taxes of Rs.0.45 crore in FY2019 (Provisional). Operations are working capital intensive due to high debtors and trade advances. Cash accruals are expected to be in the range of Rs.0.05-Rs.010 crore against the expected repayment obligations of about Rs.0.10-0.12 crore over the medium. Any mismatch in cash flows is expected to be funded through unsecured loans from promoters. The company has cash and bank balance of Rs.0.02 crore as on 31 March, 2019 (Provisional). Current ratio is moderate at 1.28 times in FY2019 (Provisional).

Outlook: Stable

Acuité believes that GTCL will maintain 'Stable' outlook over the medium term on account of experienced management. The outlook may be revised to 'Positive' in the case of increase in scale of operations and profitability. The outlook may be revised to 'Negative' in case of any stretch in working capital cycle or any significant advances further leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	18.23	21.20	21.16
EBITDA	Rs. Cr.	0.02	0.51	0.11
PAT	Rs. Cr.	14.33	0.06	0.02
EBITDA Margin	(%)	0.11	2.39	0.53
PAT Margin	(%)	78.62	0.27	0.08
ROCE	(%)	65.22	3.01	1.13
Total Debt/Tangible Net Worth	Times	0.03	0.57	0.29
PBDIT/Interest	Times	35.46	1.28	1.13
Total Debt/PBDIT	Times	0.05	12.17	22.74
Gross Current Assets (Days)	Days	591	311	333

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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
16-Jul-2018	Over Draft	Long Term	4.00	ACUITE B-/Stable (Assigned)
	PC/PCFC	Short Term	2.00	ACUITE A4 (Assigned)
	Proposed	Short Term	1.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4 (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B- / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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