Gautam Exim Limited

March 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	0.50 (Reduced from 1.00)	**CARE BB; Stable (Double B; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	17.52 (Reduced from 27.50)	**CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)**	**Reaffirmed**
Short Term Bank Facilities	-	**-**	**Withdrawn**
Total Bank Facilities	**18.02 (Rs. Eighteen Crore and Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gautam Exim Limited (GEL) continue to remain constrained by customer concentration risk, thin profitability, leveraged capital structure and weak debt coverage indicators. The ratings further continue to remain constrained by its presence in highly fragmented and competitive paper trading industry. Further, the ratings also take cognizance of company availing the moratorium granted by its lenders from for the period of April, 2020 to August, 2020 as a Covid-19 relief measure (as permitted by the Reserve Bank of India).

The ratings continue to derive strength from experienced promoters, moderate scale of operations and lean operating cycle.

Rating Sensitivities

Positive Factors

- Increase in scale of operations with TOI of over Rs.600 crore along-with diversification of customer base on sustained basis
- Improvement in capital structure with overall gearing falling below unity and improvement in debt coverage indicators with PBILDT Interest coverage of more than 2 times on a sustained basis

Negative Factors

- Deterioration in its interest coverage ratio falling below 1.25 times on sustained basis.
- Deterioration in capital structure with overall gearing to more than 3.00 times.
- Increase in collection period to more than 60 days impacting overall liquidity position

Detailed description of the key rating drivers

Key Rating Weaknesses

Thin profitability margin

The company has thin Profit before interest, lease, depreciation and tax (PBILDT) margin owing to its trading nature of operation marked by PBILDT margin of 1.01% in FY20 which deteriorated from 1.24% in FY19 with lower sales of finished paper having comparatively better margins. PAT margin continues to remain thin at 0.19% in FY20. However, as per provisional results for H1FY21, PBILDT margin improved to 1.52% primarily due to revival in domestic demand of paper and paper products.

Leveraged capital structure and weak debt coverage indictors

The capital structure of GEL moderated but continued to remain leveraged marked by overall gearing of 1.71 times as on March 31, 2020 (1.81 times as on March 31, 2019). Debt coverage indicators of the company continued to remain weak marked by high Total debt to gross cash accruals (TDGCA) of 35.58 years and moderate interest coverage ratio of 1.35 times.

Customer Concentration Risk

GEL has concentrated customer base with top 5 customers make up 72% to TOI in FY20 (FY19: 72%). Moreover, Top customer make up 55% of the TOI during FY20 as compared to 57% during FY19. However, the risk is partially mitigated by the fact that GEL is one of the key suppliers to it and it is associated with GEL for more than 18 years.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Presence in highly competitive industry with low entry barriers
GEL operates in a competitive paper and paper product industry which has low profits due to highly fragmented industry with low entry barriers. Due to low entry barriers, the industry in the country is flooded with many unorganized players. This has led to high level of competition in the industry and players work on wafer-thin margins.
Slowdown in demand for variety of paper products from various sectors
GEL trades in waste-paper to the paper mills and finished paper. The demand for paper and paper products is driven by sectors like newsprint, printing and publishing and packaging industry. Closure of education institutions, adoption of work from home by offices and muted demand for printing of newspapers among others impacted the consumption of paper & paper products and has adversely affected the industry sales. Moreover, subdued consumption also had an impact on prices of paper & paper products which further affected the revenues of industry during H1FY21. The paper & paper products' industry sales remained subdued during FY20 mainly due to low prices and high imports. However, with various unlock guidelines announced by the government, more employees are expected to resume work from offices, though in a graded way, which is likely to augur well for paper segments that are used in offices like printing and writing paper, maplitho paper among others.
The packaging segment demand is driven by underlying growth of FMCG, consumer durables, pharmaceutical, healthcare spends and ecommerce sectors. Nevertheless, demand from packaging segment will give some respite to industry players as reopening of economic activities will continue to prompt purchases of non-essential items in addition to essential items. Moreover, online buying by consumers to avoid infection will also support demand of the largest segment, packaging.
Key Rating Strengths
Experienced promoters
GEL is managed by Mr Balasubramanian Raman who has been associated with the company since its incorporation and has an experience of over two decades in the paper industry.
Moderate scale of operations
GEL had moderate scale of operation marked by TOI of Rs.353.05 crore in FY20 though declined from Rs.505.94 crore in FY19 (FY18: Rs.377.68 crore). The decrease in TOI during FY20 was due to decline in the sales volume of finished paper products and drop in waste-paper prices. GEL derived close to 66% of its TOI from waste paper trading and 26% of its TOI from finished paper trading in FY20, whereas chemicals and metal scrap contributed 0.3% and 5.5% of TOI in FY20 respectively.
Impact of Covid-19 on GEL's operations:
The company had availed moratorium under the Covid-19 relief measure (as permitted by the Reserve Bank of India) from its lenders for the period of April, 2020 to August, 2020. During initial months, in order to ensure smooth functioning, work from home facility was extended to many of the employees of the company. The operations of the company were affected as its sales are directly linked to paper mills who faced overall demand slowdown with closure of offices and schools. However, same is gradually picking up with opening up of economy. Imports from the western countries were also affected because of the international disruption caused by the pandemic. During H1FY21, TOI decreased by 50.52% to Rs. 104.76 crore with PBILDT of Rs.1.59 crore and PAT of Rs.0.21 crore (as against TOI of Rs. 211.71 crore with PBILDT of Rs.1.88 crore and PAT of Rs.0.48 crore during H1FY20).
Lean operating cycle
GEL is engaged in the high sea sales of goods mainly waste paper and act as a distributor for Shah Paper Mills Ltd (SPML) and Shah Pulp and Paper Mills Ltd (SPPML) for finished paper wherein purchases are backed by confirmed orders leading to nil inventory levels. Its receivables days remained moderate at 46 days in FY20 whereas its payable days were 15 days in FY20 and thus lean operating cycle of 31 days in FY20 (FY19: 20 days). The increase in the collection period because of longer collection period in finished paper segment. Trade receivables had increased from Rs.41.97 crore as on March 31, 2019 to Rs.47.30 crore as on March 31, 2020.

Liquidity – Stretched
GEL has stretched liquidity marked by high utilization of its fund-based limits at 91% for past 12 months ended December 31, 2020 and moderate liquidity ratios. The current ratio and the quick ratio both remained moderate at 1.32 times as on March 31, 2020. Cash flow from operations stood positive at Rs.1.85 crore in FY20 as compared to negative Rs.5.46 crore in FY19. However, GEL has very low repayment obligation of Rs.0.03 crore against moderate cash accruals of Rs.0.75 crore in FY20 and of Rs.0.15 crore against moderate cash accruals of Rs.0.38 crore in FY21. GEL had total cash and bank balance of Rs.9.07 crore as on March 31, 2020 (including FDs of around Rs. 6.63 crore).

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE'S Policy on Default Recognition
Criteria for Short Term Instruments

[Rating Methodology - Wholesale Trading]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology - Manufacturing Companies]
[Financial Ratios - Non-Financial Sector]
[Policy on Withdrawal of ratings]

About the Company

Vapi-based (Gujarat), GEL was incorporated in August 2005, by Mr Balasubramanian Raman. In the year 2009, the company took over the paper trading business of Gautam Enterprise, the proprietorship concern of promoter Nagalaxmi Balasubramanian in 2009. GEL is engaged in the trading of waste paper, pulp, chemicals, metal scrap and finished paper. GEL got listed on BSE SME platform on July 11, 2017 and raised Rs. 3.32 crore of equity.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	505.94	353.05
PBILDT	6.41	3.57
PAT	1.73	0.67
Overall gearing (times)	1.81	2.00
Interest coverage (times)	1.66	1.35

A- Audited

During H1FY21, GEL had reported TOI of Rs. 104.76 crore with PBILDT of Rs.1.59 crore and PAT of Rs.0.21 crore. During 9FY21, GEL reported a turnover of Rs.150.76 crore.

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	17.52	CARE BB; Stable / CARE A4
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.50	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	17.52	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (24-Jan-20)	1)CARE BB; Stable / CARE A4 (26-Dec-18)	1)CARE BB; Stable / CARE A4 (04-Jan-18)
2.	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A4 (24-Jan-20)	1)CARE A4 (26-Dec-18)	1)CARE A4 (04-Jan-18)
3.	Fund-based - LT-Cash Credit	LT	0.50	CARE BB; Stable	-	1)CARE BB; Stable (24-Jan-20)	1)CARE BB; Stable (26-Dec-18)	1)CARE BB; Stable (04-Jan-18)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (24-Jan-20)	1)CARE A4 (26-Dec-18)	1)CARE A4 (04-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based/Non-fund-based-LT/ST	Simple
3.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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