CARE Ratings
Professional Risk Opinion

Gautam Exim Limited

January 04, 2018

Rating

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1.00	CARE BB; Stable [Double B; Outlook: Stable]	**Assigned**
Short-term Bank Facilities	10.50	CARE A4 [A four]	**Assigned**
Long-term/Short-term Bank Facilities	27.50	CARE BB; Stable/CARE A4 [Double B; Outlook: Stable/A four]	**Assigned**
Total	**39.00 (Rupees Thirty Nine crore 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) are constrained by customer concentration risk and financial risk profile marked by thin profitability, leveraged capital structure and weak debt coverage indicators. The ratings are further constrained by its presence in highly fragmented and competitive paper trading industry.

The ratings, however, derives strength from experienced promoters, moderate but growing scale of operation of the company and short operating cycle.

The ability of GEL to grow its scale of operations along with improvement in profitability and efficient management of its working capital are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Thin profitability, leveraged capital structure and weak debt coverage indicators: 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 1.83% in FY17. Its capital structure remains leveraged with overall gearing of 2.96 times as on March 31, 2017 as compared to 4.61 times as on March 31, 2016. The company got listed on the stock exchange raising Rs 3.23 crore which improved the gearing ratio to 2 times. Total debt to gross cash accruals (TDGCA) and interest coverage ratio remained weak at 31.44 years and 1.27 times in FY17 respectively.

Customer Concentration Risk: GEL has a concentrated customer base with top 10 customers making up 93.56% of the revenue in FY17 which previously made up 93.99% of revenue in FY16. Moreover the top customer makes up 60% of the revenue of the company in FY17. However this risk is partially mitigated by the fact that GEL is the sole supplier to the top customer and is associated with them for more than 16 years.

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.

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

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 but growing scale of operations: GEL has moderate scale of operations with total operating income standing at Rs 314.87 crore in FY17. The scale of operation of the company had grew from Rs.208.84 crore in FY15 to Rs.314.87 crore in FY17 at a healthy Compound Annual Growth Rate (CAGR) of 22.79%. GEL derived close to 90.09% of its TOI from waste paper in FY17, where as chemicals and metal scrap contributed 2.47% & 7.44% of TOI in FY17 respectively. As per provisional results for H1FY18, GEL had reported TOI of Rs.155.25 crore with a PAT of Rs.0.42 crore.

Short operating cycle: The company has a short operating cycle of 15 days with no inventory holding as company purchases are made on back-to-back orders from its customers.

Analytical approach: Standalone

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's methodology for trading companies]
[Financial Ratios - Non Financial Sector]

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 and metal scrap. It mainly sells waste paper to paper mills and same is procured based confirmed orders. The company imports pulp and chemicals from USA, UK & Middle East and sells it in domestic market to various paper manufacturers. Further, GEL got listed on BSE SME platform on July 11, 2017 and raised Rs. 3.32 crore of equity.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	291.95	314.87
PBILDT	9.14	5.78
PAT	0.63	0.80
Overall gearing (times)	4.61	2.96
Interest coverage (times)	1.11	1.27

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

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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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	27.50	CARE BB; Stable / CARE A4
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.50	CARE A4
Fund-based - LT-Cash Credit	-	-	-	1.00	CARE BB; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	27.50	CARE BB; Stable / CARE A4	-	-	-	-
2.	Non-fund-based - ST-Credit Exposure Limit	ST	0.50	CARE A4	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	1.00	CARE BB; Stable	-	-	-	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A4	-	-	-	-

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