

Gautam Exim Limited

January 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1.00	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	0.50 (Reduced from Rs.10.50 crore)*	CARE A4 [A Four]	Reaffirmed
Long-term/Short-term Bank Facilities	27.50	CARE BB; Stable/CARE A4 [Double B; Outlook: Stable/ A Four]	Reaffirmed
Total Facilities	29.00 (Rupees Twenty Nine crore only)		

Details of Instruments/facilities in Annexure-1

*Rating assigned to LCBD facility of Rs.10 crore has been withdrawn based on NOC from banker.

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.

The ratings continue to derive strength from experienced promoters, moderate but growing scale of operation of the company, lean operating cycle and growing demand of paper products.

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.
- 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, 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 1.24% in FY19 which improved marginally from 1.14% in FY18. PAT margin continue to remain thin at 0.31% in FY19. However, as per provisional results for H1FY20, PBILDT margin declined to 0.89% (H1FY19: 1.29%) primarily due to change in working capital funding mix and relatively subdued market demand of paper and paper products. Interest cost had also reduced significantly in H1FY20 on y-o-y basis resulting in proportionately lower decline at PAT levels (PAT margin of 0.23% in H1FY20 compared to 0.28% in H1FY19).

Its capital structure continued to remain leveraged marked by overall gearing of 1.81 times as on March 31, 2019 (1.75 times as on March 31, 2018). Debt coverage indicators of the company continued to remain weak marked by high Total debt to gross cash accruals (TDGCA) of 16.19 years and moderate interest coverage ratio of 1.62 times.

Customer Concentration Risk

GEL has a concentrated customer base with top 5 customers making up 72% of the revenue in FY19 which previously made up 71% of revenue in FY18. Moreover the top customer makes up 57% of the revenue of the company in FY19. However this risk is partially mitigated by the fact that GEL is one of the major suppliers to its top customer and is associated with them for more than 18 years.

¹Complete 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.

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 but growing scale of operations reporting Total operating income (TOI) of Rs 505.94 crore in FY19 as compared to Rs. 377.68 crore in FY18. The growth in the scale of operations was on account of the increased volumes of trading in the finished paper segment on the back of increased demand for the end product from paper mills. GEL derived close to 60.10% of its TOI from waste paper trading and 33.49% of its TOI from finished paper trading in FY19, whereas chemicals and metal scrap contributed 1.68% and 2.59% of TOI in FY19 respectively.

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 29 days in FY19 whereas its payable days were 10 days in FY19 and thus lean operating cycle of 19 days.

Growing demand for variety of paper products from various sectors augurs well for the players

GEL trades in waste paper to the paper mills as well as finished paper. The demand for paper and paper products is driven by sectors like newsprint, printing and publishing and packaging industry. The packaging segment demand is driven by underlying growth of FMCG, consumer durables, pharmaceutical, healthcare spends and ecommerce sectors. These factors would continue to drive future growth of the industry; however, issues like rising cost of coal and logistics leading to higher landed cost and dumping of cheaper products from other countries would pose a challenge to proliferation of this industry.

Liquidity – Stretched

GEL has stretched liquidity marked by high utilization of its fund based limits at 92% for past 12 months ended November 30, 2019, negative cash flow from operations and moderate liquidity ratios. Cash flow from operations stood at negative Rs. 5.46 crore in FY19 as compared to negative Rs. 2.69 crore in FY18. The current ratio and the quick ratio both remained moderate at 1.33 times as on March 31, 2019. However, GEL has very low repayment obligation of Rs.0.03 crore against moderate cash accruals of Rs.1-1.5 crore in next two years. GEL had total cash and bank balance of Rs.7.35 crore as on March 31, 2019 (including lien marked FD of around Rs. 2.75 crore).

Analytical approach: Standalone

Applicable Criteria:

[CARE's policy on withdrawal of ratings](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for wholesale trading companies](#)

[Criteria for short term instruments](#)

[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, 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 of GEL (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	377.68	505.94
PBILDT	4.31	6.26
PAT	1.19	1.58
Overall gearing (times)	1.75	1.81
Interest coverage (times)	1.85	1.62

A: Audited

As per provisional results, during H1FY20 (refers to April 01, 2019 to September 30, 2019), GEL registered net sales of Rs. 211.71 crore with PAT of Rs. 0.48 crore as against a TOI of Rs. 212.29 crore with PAT of Rs. 0.60 crore during H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

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	-	-	-	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	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	27.50	CARE BB; Stable / CARE A4	-	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	0.50	CARE A4	-	1)CARE A4 (26-Dec-18)	1)CARE A4 (04-Jan-18)	-
3.	Fund-based - LT-Cash Credit	LT	1.00	CARE BB; Stable	-	1)CARE BB; Stable (26-Dec-18)	1)CARE BB; Stable (04-Jan-18)	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	Withdrawn	-	1)CARE A4 (26-Dec-18)	1)CARE A4 (04-Jan-18)	-

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 clarification.

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