

## Gautam Exim Limited

December 26, 2018

Rating	Facility	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
	Long-term Bank Facilities	1.00	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
	Short-term Bank Facilities	10.50	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
	<b>Total</b>	<b>39.00</b> <b>(Rupees Thirty Nine crore only)</b>		

*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 be constrained by customer concentration risk, moderate liquidity and financial risk profile marked by 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.

The ability of GEL to grow its scale of operations along with improvement in profitability and capital structure with 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 1.14% in FY18 which had declined compared to FY17 owing to the full impact of change in credit terms with customers with similar reduction in interest/finance costs. The PBILDT margins were 1.29% during H1FY19. It has a leveraged capital structure marked by overall gearing of 1.75 times as on March 31, 2018, which improved from 2.96 times as on March 31, 2017. The improvement in the capital structure was led by infusion of funds through listing of GEL on BSE SME platform in July, 2017. Debt coverage indicators of the company continued to remain weak marked by Total debt to gross cash accruals (TDGCA) of 18.71 years and interest coverage ratio of 1.85 times.

**Customer Concentration Risk:** GEL has a concentrated customer base with top 10 customers making up 86.53% of the revenue in FY18 which previously made up 93.56% of revenue in FY17. Moreover the top customer makes up 56% of the revenue of the company in FY18. 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 17 years.

**Moderate liquidity:** It has lean operating cycle and moderate current ratio and the quick ratio i.e. 1.28 times as on March 31, 2018. However, its average fund based working capital utilization for last twelve months ended October 31, 2018 remained high at 90% while cash flow from operations stood at negative Rs. 2.69 crore in FY18 reflecting moderate liquidity.

**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 377.68 crore in FY18 as compared to Rs. 314.87 crore in FY17. The growth in the scale of operations was on account of improved realizations of waste paper and metal scrap and commencement of trading of finished paper in capacity of dealer. GEL derived close to 82.42% of its TOI from waste paper in FY18, whereas chemicals, metal scrap and finished paper trading contributed 2.76%, 5.65% & 5.03% of TOI in FY18 respectively. As per provisional results for

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

H1FY19, GEL had reported TOI of Rs.212.29 crore with a PAT of Rs.0.60 crore.

**Lean operating cycle:** GEL is engaged in the high sea sales of goods it imports leading to nil inventory levels. Its receivables days remained moderate at 31 days in FY18 whereas its payable days were 11 days in FY18 and thus lean operating cycle of 20 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. Some of the factors that have resulted in growth of paper industry are rise of vernacular newspapers, growth in advertising revenues, growth in education, office space and increasing importance of packaging industry. These factors would continue to drive future growth of the industry. In addition to the above, ban by China on import of certain type of waste papers had dual effect of significant decline in prices of waste paper and reduced recycled paper production in China resulting in increased demand of paper from India and consequent capacity addition in the industry increasing demand of waste paper.

**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, 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)	FY17 (A)	FY18 (A)	H1FY19 (UA)
Total operating income	314.87	377.68	212.29
PBILDT	5.78	4.31	2.74
PAT	0.80	1.19	0.60
Overall gearing (times)	2.96	1.75	1.98
Interest coverage (times)	1.27	1.85	1.49

A-Audited, UA-Unaudited

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	27.50	CARE BB; Stable / CARE A4	-	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 (04-Jan-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	1.00	CARE BB; Stable	-	1)CARE BB; Stable (04-Jan-18)	-	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A4	-	1)CARE A4 (04-Jan-18)	-	-

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