Gemini Exports

December 27, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action[1]
Long-term Fund-based - Packing Credit (PC)/Post Shipment Credit (PSC)/Foreign Bill Purchase (FBP)	9.00	9.00	[ICRA]BB-(Stable); Reaffirmed
Long-term - Unallocated	1.00	1.00	[ICRA]BB-(Stable); Reaffirmed
Short-term Non-Fund Based - Letter of Credit^	(1.00)	(1.00)	[ICRA]A4; Reaffirmed
Short-term Non-Fund Based - Bank Guarantee^	(0.50)	(0.50)	[ICRA]A4; Reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*
^Sublimit under fund-based facilities

Rationale

While assigning the ratings, ICRA has deconsolidated the business and financial profiles of Gemini Exports (GE) and its Group company, Polydrug Laboratories Private Limited (PLPL), since PLPL's bank debt has been entirely repaid and the ratings have been withdrawn. The current ratings for GE are based on its standalone business and financial risk profiles.

The reaffirmed ratings remain constrained by GE's elongated receivable position owing to the high credit period offered to its export customers, exposure of its profitability margins to currency fluctuations (given the high reliance on exports), and high customer concentration risk. The firm is also exposed to the regulatory changes in the pharmaceutical industry of domestic as well as export markets, and the risk associated with respect to capital withdrawals associated with a partnership firm.

The ratings, however, favourably factor in the healthy growth in revenues (by virtue of the shift of the trading operations from PLPL to GE), robust profitability margins arising from scale benefits, and comfortable capital structure at present. The ratings continue to factor in the extensive experience and established track record of the promoters in the active pharmaceutical ingredient (API) industry.

Outlook: Stable

ICRA expects GE to continue to benefit from the extensive experience of its promoters and expects moderate revenue growth over the next three years. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if any major capital expenditure is incurred, or if a stretch in the working capital cycle or any sizeable capital withdrawal by the partners weakens liquidity.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Extensive experience of promoters in pharmaceutical API industry - The firm's key promoters, Mr. Punit Thakkar and Ms. Bina Thakkar, also manage the API manufacturing company, PLPL (since December 2007). Thus, the management has extensive experience in the pharmaceutical API industry, both in terms of manufacturing as well as trading.

Healthy growth in revenues and robust profitability margins - With the trading revenues shifted to GE from FY2017, the scale of operations grew by 107% to Rs. 95.18 crore in FY2018 from Rs. 45.99 crore in FY2017. The profitability margins also remained robust with the operating margins in the range of 16-17% and net margins of 10-11% over the last two fiscals, mainly due to scale benefits.

Comfortable capital structure and moderate debt coverage metrics - The firm's capital structure remained comfortable as reflected by a gearing of 0.22 time as on March 31, 2018, due to limited working capital borrowings. The coverage indicators remained moderate with interest coverage of 6.42 times (P.Y.[2] - 24.45 times), TD/OPBDITA of 0.41 times (P.Y. - 0.69 times) and NCA/TD of 152% (P.Y. - 92.99%) as on March 31, 2018.

Credit challenges

Increased working capital intensity of operations due to elongated receivables - The working capital intensity remains high, as reflected by NWC/OI of ~36% as on March 31, 2018 (~42% as on March 31, 2017), due to elongated receivables. The debtor days remained high in the last two years, owing to the high credit period offered to the key customers to the extent of 180-220 days. It stood at 148 days as on March 31, 2018 (200 days as on March 31, 2017). However, the inventory is procured only against fixed orders. Thus, the inventory days remained low at nine days as on March 31, 2018 (15 days as on March 31, 2017) for the firm.

Susceptibility of margins to forex fluctuations and regulatory changes in pharmaceutical industry - Given the firm's high reliance on exports for generating the bulk of its revenues (98% in FY2018) and limited imports, GE's profitability margins remain vulnerable to fluctuations in foreign currencies in the absence of a formal hedging mechanism. The firm's operations also remain exposed to the regulatory changes prevalent in the pharmaceutical industry, both in the domestic and export markets.

Increased customer concentration risk - The firm is exposed to increased customer concentration risk with the top five customers accounting for 37% of the total revenues in FY2018. The firm's entire sales are exports, mainly in semi-regulated markets like Brazil, Egypt, Kenya and Russia. However, the firm has been getting repeated orders from the customers over the years.

Risks with respect to capital withdrawals in partnership firm - The firm, by virtue of its partnership nature, remains exposed to the risk of capital withdrawals by the partners, which may weaken the firm's capital structure.

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[2]*Previous year*

Liquidity position

GE did not have any term loan as on March 31, 2018; hence, there is no scheduled repayment obligation in the near term. The fund flow from operations (FFO) remained positive in FY2018; however, the free cash flows stood negative mainly on account of increased working capital requirements. The firm had undrawn fund-based working capital limits of Rs. 6.40 crore as on March 31, 2018, supporting liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not applicable.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Incorporated in 1996, GE is a partnership firm which trades in APIs. The trading operations are carried out from their head office at Sewri, Mumbai and over 300 APIs are traded by the firm. GE has a Group concern, PLPL, which manufactures APIs and has a manufacturing plant at Ambernath, Maharashtra.

GE reported a profit after tax (PAT) of Rs. 9.64 crore on an operating income (OI) of Rs. 95.18 crore in FY2018, compared to the PAT of Rs. 5.13 crore on an OI of Rs. 45.99 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	45.99	95.18
PAT (Rs. crore)	5.13	9.64
OPBDITA/OI (%)	17.55%	16.33%
RoCE (%)	68.71%	64.89%
Total Debt/TNW (times)	0.39	0.22
Total Debt/OPBDITA (times)	0.69	0.41
Interest Coverage (times)	24.45	6.42

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Current Rating (FY2019) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Chronology of Rating History for the Past 3 Years Date & Rating in FY2018 October 2017	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 -
1	Packing Credit /Post Shipment Credit/Foreign Bill Purchase	Long Term	9.00	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]B+	-
2	Unallocated	Long Term	1.00	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]B+	-
3	Letter of Credit^	Short Term	(1.00)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	
4	Bank Guarantee^	Short Term	(0.50)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	

^Sublimit of fund-based facilities

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Packing Credit/Post Shipment Credit/Foreign Bill Purchase	NA	NA	NA	9.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	1.00	[ICRA]BB- (Stable)
NA	Letter of Credit^	NA	NA	NA	(1.00)	[ICRA]A4
NA	Bank Guarantee^	NA	NA	NA	(0.50)	[ICRA]A4

^Sublimit of fund-based facilities
Source: GE

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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