

July 11, 2019

## Gemtree Natural Produce Private Limited: Ratings revised

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	13.00	13.00	[ICRA]BB- (Stable); Revised from [ICRA]BB (Stable)
Unallocated	2.00	2.00	[ICRA]BB- (Stable); Revised from [ICRA]BB (Stable)
<b>Total</b>	<b>15.00</b>	<b>15.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings revision takes into account the decline in Gemtree Natural Produce Private Limited's (GNPPL) profitability as well as cash accruals in FY2019 on account of forex losses. This resulted in the weakening of other metrics like Debt/OPBDITA and gearing levels. Moreover, the liquidity of the company is stretched, as evident from the almost full utilisation of working capital limits. Besides, GNPPL does not have any formal hedging mechanism. Given that around 80-90% of its purchase is imported, the company is exposed to volatility in foreign exchange rate. ICRA's ratings also remain constrained by GNPL's exposure to adverse agro-climatic conditions. Further, ICRA notes that the availability of additional working capital limits would remain crucial to further the company's growth.

However, ICRA's ratings continue to reflect the extensive experience of the promoters and the increase in the company's customer base. GNPPL has also expanded its geographical reach to other regions, which has resulted in a substantial decrease in its dependence on North India. The ratings continue to derive comfort from the logistic advantage enjoyed by the company due to its proximity to apple cultivators in Himachal Pradesh. Also, its increased import of graded apples has significantly reduced its inventory holdings.

Going forward, the company's ability to improve its scale in a sustainable manner as well as improve its profit margins and maintain optimal working capital intensity will be the key rating sensitivities.

### Outlook: Stable

ICRA believes that the company will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations and cash accruals alongside a decline in gearing levels. The outlook may be revised to Negative if the cash accrual is lower than expected, or there is any major decline in sales turnover, or stretch in the working capital cycle weakens liquidity.

### Key rating drivers

#### Credit strengths

**Experienced management provides competitive edge** - The promoters and their families have been involved in the fruit-trading business for more than 40 years and have gained a thorough knowledge of the market. Such a long presence in the industry has helped the company in establishing relationship with its suppliers and customers.

**Presence near apple producing area** - The company procures apples from farmers/agents in the domestic market. Given that its production facility is in one of the villages of Himachal Pradesh, it has access to a large number of farmers from the nearby areas for procuring apples.

**Increase in import of graded apples** - The company has started importing apples from FY2016 onwards. This has substantially reduced its working capital intensity as the imported apples do not need to be graded or sorted.

## Credit challenges

**Modest financial risk profile with stretched liquidity position** - The company has a modest financial profile as reflected in low net worth base, weak operating margins and elevated debt/OPBDITA levels. Moreover, the liquidity position of GNPPL is stretched as reflected by the full utilisation of working capital limits.

**Seasonality of operations** - The products that the company deals in are highly seasonal and perishable in nature. The procurement season is between August and October, and the production activities are also carried out during that period.

**Agro-climatic risks** - Apple being an agricultural commodity remains exposed to the vagaries of monsoon and other agricultural risks like outbreak of diseases, lower/higher-than-projected production levels impacting the supply (and hence prices), damages caused by poor storage capacities in the country, and inconsistencies in quality, etc.

## Liquidity position

The liquidity position would remain stretched due to its high reliance on external debt and low cash and liquid assets of ~Rs. 0.45 crore as on March 31, 2019. The debt profile consisted working capital borrowings (Rs. 12.96 crore) and term loan of Rs. 0.04 crore as on March 31, 2019. The working capital utilisation remained almost fully utilised at 99% during the last 12 months. The debt service coverage ratio and the interest coverage ratio are also expected to remain low to moderate with negative free cash flows.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials

## About the company

GNPPL was incorporated in 2011 as a private limited company under the name of Fortuna Nature Produce Private Limited. The company's name was subsequently changed to GNPPL in 2013. It is involved in the business of grading and storing apples. The entity has its registered office at 17, Indra Nagar, Dehradun, Uttarakhand. The grading line and controlled atmosphere storage (CA storage) is a leased premise located at Tarol Tikker, Shimla, which spreads over an area of around 15 bighas. The company has a two CA storage, a grading line and a marketing office at present.

## Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	65.55	71.27
PAT (Rs. crore)	0.45	0.34
OPBDIT/OI (%)	3.05%	2.73%
RoCE (%)	7.30%	7.06%
Total Debt/TNW (times)	2.89	2.51
Total Debt/OPBDIT (times)	9.15	8.61
Interest Coverage (times)	1.77	1.55

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Instrument	Current Rating (FY2020)		Chronology of Rating History for the past 3 years				
			Date & Rating July 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2016 August 2015	
1 Cash Credit	Long Term	Amount Rated (Rs. crore) 13.00	Amount Outstanding (Rs. crore) -	[ICRA]BB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB-(Stable)
2 Unallocated	Long Term	Amount Rated (Rs. crore) 2.00	Amount Outstanding (Rs. crore) -	[ICRA]BB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB-(Stable)

## 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](http://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	Cash Credit	-	-	-	13.00	[ICRA]BB- (Stable)
NA	Unallocated	-	-	-	2.00	[ICRA]BB- (Stable)

Source: GNPPL

### Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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