

# Infomerics Valuation And Rating Pvt. Ltd.

## Press Release

### GNE Exports Pvt Ltd

December 18, 2018

## Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities (Including proposed limit of Rs.0.10 crore)	10.00	IVR BB+ / Stable (IVR Double B Plus with Stable Outlook)	Assigned
<b>Total</b>	<b>10.00</b>		

## Details of Facilities are in Annexure 1

## Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters with long track record, established arrangement with suppliers for raw materials. However, the rating is constrained by its small scale of operation, working capital intensive operations, customer concentration risk and foreign exchange risk. Growth in scale of operations, trend in profitability, efficient management of working capital and gearing level are the key rating sensitivities.

## List of Key Rating Drivers with Detailed Description

## Key Rating Strengths

### Experienced promoters

GNE Exports commenced its operation in 2005. The promoters, Anil Kumar Batra and Sunil Kumar Batra are well experienced in the line of manufacturing Indian ethnic garments. However they are into exporting of garments since 1982. They inherited the skill from their father Late Shri Bansi Lal Batra who started the business in 1950 in Phagwara, Punjab.

### Established arrangement with suppliers for raw materials

Raw materials for embroidery includes Aari, beads and stones, fabric gum, thread and most importantly the fabric which varies from cotton, silk, velvet to georgette, etc. Given their

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legacy business of textile exports which they started in 1982, GNE has established supply arrangements with its vendors. The company manages to avail credit of about three months from its suppliers (mainly from wholesalers) which add to the working capital flexibility.

### **Key Rating Weaknesses**

#### **Small scale of operation**

Despite its long track record of operations, GNE has a small scale of operations with total operating revenue of Rs.44.42 crore in FY17. During FY18 the company has achieved a total operating revenue of about Rs.46.27 crore driven by higher exports.

#### **Moderate working capital intensity**

GNE's operations are working capital intensive which emanates from high receivables days (74 days in FY18). High operating cycle is attributable to large inventory holding requirements for finished products to support retail and dealer channel (which includes stores owned by group companies). Further, to support the sales growth in highly competitive market, the company has to extend higher credit terms to its dealers/wholesalers and stores owned by its associates. Further for its exports clients, payment terms varies from advance to 60 days. Also, the average utilisation of fund-based working capital bank limits was high at ~90%.

#### **Customer concentration risk**

Top five clients accounted for about ~80% of the company's total operating income in FY18 indicating concentrated customer base. Furthermore, 60% of its total revenues is earned through stores owned by group companies (Frontier Raas and Frontier Emporio chain of stores).

#### **Foreign exchange risk**

The company does not generally hedge its foreign exchange exposure, although exports accounted for only about 20% of the overall sales on an average, leaving it vulnerable to adverse movements in rupee.

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### Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition & Post Default Curing Period

### About the Company

GNE Exports is engaged in embroidering, dying, beading, trading and exporting high fashion exclusive hand embroidered ethnic Indian garments to Canada, UK, USA and Indonesia. Exports contribute a fifth to the overall sales. However the remaining is sold to either wholesalers/dealers and high end retail formats of 'Frontier Raas' and 'Frontier Emporio', which are group companies of GNE Exports. GNE is engaged in manual as well as machine embroidery. The company has a processing unit at B-223, Naraina Industrial Area Phase-1, New Delhi-110028. The unit has a highly skilled workforce of about 200 employees.

### Financials (Standalone):

	<b>(Rs. crore)</b>	
<b>For the year ended*</b>	<b>31-03-2017</b>	<b>31-03-2018</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	44.42	46.27
EBITDA	1.86	2.84
PAT	0.67	1.03
Total Debt	3.50	14.70
Tangible Net worth	6.82	7.88
EBITDA Margin (%)	4.20	6.13
PAT Margin (%)	1.50	2.22
Overall Gearing Ratio (x)	0.51	1.86

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	6.00	IVR BB+/ Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Cash Credit (Proposed)	Long Term	0.10	IVR BB+/ Stable Outlook	-	-	-
3.	Long Term Fund Based Limits - EPC	Long Term	3.90	IVR BB+/ Stable Outlook			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities–Cash Credit	-	-	-	6.00	IVR BB+/ Stable Outlook
Long Term Fund Based Limits – Cash Credit (Proposed)	-	-	-	0.10	IVR BB+/ Stable Outlook
Long Term Fund Based Limits - EPC	-	-	-	3.90	IVR BB+/ Stable Outlook