



Press Release

Gupta H.C Overseas (India) Private Limited

June 13, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	60.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	9.00	IVR A2+(IVR A Two Plus)	Assigned
	Total	69.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Gupta H.C Overseas (India) Private Limited (GHOPL) draws comfort from its successful track record under experienced promoters, sustained growth in scale of operations with geographically diversified revenue profile and healthy liquidity. The ratings also positively consider its reputed customer profile albeit concentration, satisfactory capital structure with comfortable debt protection metrics and working capital intensive nature of its operations. However, these rating strengths are partially offset by intense competition prevalent in footwear industry, susceptibility of profitability to fluctuations in raw material prices and exchange rates.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward factor:

- Dip in operating income and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure with deterioration in the overall gearing ratio.
- Elongation in the operating cycle impacting the liquidity



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The company was established under the guidance of Mr. Gopal Gupta who has over three decades of experience in footwear industry. Second generation of promoters have also joined the company. The promoter is supported by a highly qualified and trained team to run day to day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers to get repetitive orders from its customers

Reputed customer profile albeit concentrated and successful track record

GHOPL was incorporated on April 2008 by converting Gupta Overseas (a partnership firm, incorporated in 1987). In 1987, company started its operations by manufacturing just 48 pair of ladies footwear in a day, which has now increased to 8000 pairs. Over the period of time, company has built robust relationship with customers. Some of the customers are associated with the company for more than 20 years, reflecting good product quality and strong management creditability. GHOPL customer profile consists of some of very well-known clients such as Zara, H&M, Hush Puppies, Bocage etc.

Geographical diversification in revenue profile

Being an export oriented company it has strong presence in Europe and UK. In FY19 Europe and UK contributed ~76% of sales whereas other countries such as U.S, Asia, Australia collectively contributed ~23%.

Sustained growth in scale of operations

The company recorded a sustained growth in the total operating income at a CAGR of ~3% during FY17-FY19 with a y-o-y growth of ~17% in FY19. The growth in revenue is mainly driven by increase in flow of order and execution of the same aided by increase in capacity utilisation to ~87% and manufacturing 17,29,337 pair of ladies footwear in FY19 compared to 15,95,204 pair of ladies footwear manufactured with capacity utilisation of ~80% in FY18. With increase in total operating income, absolute EBIDTA and PBT has also improved in



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FY19. The EBITDA, PBT margin has also witnessed an improvement from 5.96% and 4.88% in FY18 to 7.65% and 4.91% in FY19. As per FY20 (Prov.) results the company has earned a total operating income of Rs.289.61 crore and has secured orders worth Rs.74 crore in hand to be completed by august 2020 indicating medium term revenue visibility.

Satisfactory capital structure with comfortable debt protection metrics

The capital structure of the company remained comfortable in the past three financial years. The overall gearing ratio and long term debt equity ratio stood at 0.75x and 0.11x respectively as on March 31,2019 with a net worth of Rs.99.15 crore and absence of long term debt. The company's total debt comprises of Rs.8.42 crore unsecured loan from directors and other related parties and bank borrowing of Rs.49.33 crore in FY19. However, Total indebtedness of the company as reflected by TOL/TNW deteriorated marginally yet remained comfortable at 0.92x in FY19 (0.85x in FY18) driven by increase in creditors and borrowings to fund its working capital requirements. Due to higher utilization of bank borrowing total debt/ GCA remained moderate at 3.36 year in FY19. Interest coverage ratio also continued to remain comfortable at 6.28x in FY19 (4.28x in FY18).

Healthy liquidity

The liquidity profile is supported by sizeable free cash balances. The company has healthy liquidity marked by its healthy cash accruals and liquid investments to the tune of Rs.36 Crore (as on March 31, 2019). Further, the average utilisation of its working capital limit also remained comfortable at ~63% in the last 12 months ended on Dec 2019 indicating liquidity buffer.

Moderate Working capital intensive nature of operations:

The operations in footwear sector are capital intensive. GHOPL is an export oriented company dealing with reputed clientele who are also ECGC certified customer's and receives payment within 35 to 45 days of sales which are backed by LC .The company hold an inventory of raw material for 50 to 55 days .The Working Capital Cycle of the company stood moderate at 56 days in FY19 (55 days in FY17). The current and quick ratio are comfortable at 1.74x and 1.37x as on March 31,2019.



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Key Rating Weaknesses

Fluctuations in raw material prices and exchange rates

Leather is the primary raw material used for manufacturing footwear and procuring good quality leather helps in smooth operations. The company imports raw material from China, Italy, Russia, Egypt and exports finished goods to Europe, U.K, U.S, Australia. GHOPL profitability depends upon the movement of raw material prices and foreign currency exchange rate risk.

Intense competition prevalent in the footwear industry

The company is exposed to intense competition prevalent in the highly fragmented footwear industry and faces stiff competition from both organised and unorganised players. The industry lacks capital intensive manufacturing process owing to low barrier to entry and cheap availability of labour. Due to presence of large number to medium to small size of players, the pricing power is limited to the players in the industry. Footwear Industry faces constant threat of changes of customer preferences, duplication of designs and inventory obsolescence risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Strong

GHOPL has earned a GCA of Rs.17.21 crore in FY19 against absence of any long term debt obligations. The liquidity profile is healthy, supported by liquid investments to the tune of Rs.36 Crore (as on March 31, 2019). Further, the average utilisation of its working capital limit also remained comfortable at ~63% in the last 12 months ended on December 2019 indicating an satisfactory liquidity buffer. Moreover, the company is expected to generate cash accruals to the tune of Rs.21-22 crore as against its debt obligations of ~Rs.2 to 3 crore during FY21-22.



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About the Company

Gupta H.C Overseas India Private Limited (GHOPL) was incorporated on April 2008 as private limited company by converting Gupta Overseas (a partnership firm). Gupta Overseas was incorporated in 1987 by Mr Gopal Gupta and his family members. GHOPL is engaged in manufacturing and export of ladies footwear with latest technology and modern machinery which gives the company competitive advantage in international markets. GHOPL has 2 operational manufacturing plant in Agra with installed capacity of 8000 pair of ladies footwear and 3rd unit ready for operation in Agra with the installed capacity of 1200 to 1500 pairs of ladies footwear.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	263.13	307.52
EBITDA	15.68	23.54
PAT	8.72	8.93
Total Debt	47.58	57.75
Tangible Net worth	89.96	99.15
EBITDA Margin (%)	5.96	7.65
PAT Margin (%)	3.19	2.87
Overall Gearing Ratio (x)	0.60	0.75

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Exporter Gold Card*	Long Term	60.00	IVR A-/Stable Outlook	-	-	-
2.	Letter of Credit	Short Term	7.50	IVR A2+	-	-	-
3.	CEL	Short Term	1.50	IVR A2+			

*Sub limit of EPC/PCFC/FBP/FBD/EBR of Rs 40.00 Crores

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.

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About Infomerics:

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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 Facility- Exporter Gold Card*	-	-	-	60.00	IVR A-/Stable Outlook
Short Term Bank Facility- Letter of Credit			-	7.50	IVR A2+
Short Term Bank Facility- CEL				1.50	IVR A2+

*Sub limit of EPC/PCFC/FBP/FBD/EBR of Rs 40.00 Crores