



## Rating Rationale

G.K. Proteins Pvt Ltd

20 Dec 2019

Brickwork Ratings reaffirms its long term and short term ratings for the bank loan facilities amounting to Rs. 20 Crs of G.K. Proteins Pvt Ltd or ‘the Company’.

### Particulars:

Facility#	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous <sup>^</sup> (July, 2018)	Present
Fund based Cash Credit	1.00	1.00	Long Term	BWR BBB-/Stable	BWR BBB-/Stable (Reaffirmed)
Non Fund Based LC/FLC	19.00	19.00	Short Term	BWR A3	BWR A3 (Reaffirmed)
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	<b>INR Twenty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

<sup>^</sup>BWR issued Rating Not Reviewed advisory on 25 July 2019 for the previous ratings.

#Complete details of Bank facilities is provided in Annexure-I

### RATING ACTION/OUTLOOK

The reaffirmation of its ratings factors in comfortable gearing profile backed by moderate tangible net worth with low secured debt obligations, promoters’ experience with established track record in this sector and comfort drawn from its group support in terms of operational and financial synergies, besides satisfactory feedback from its existing lender.

The ratings are, however, constrained by a significant decline in turnover levels coupled with low profitability margins reported over the past three years. Other risk factors related to risk exposure arising from volatility in commodity prices and regulatory changes besides highly competitive industry due to fragmentation, remain the same. BWR also noted that the Company extended a significant amount of loans to its various its group entities which is close to its outstanding tangible net worth position. Further, it is not reporting any revenues from the said investments.

### RATING OUTLOOK: Stable

BWR believes that the business risk profile of **G.K. Proteins Pvt Ltd** will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the turnover and profitability of the company show



sustained improvement. The rating outlook may be revised to 'Negative' if the turnover goes down and the margins show lower than expected figures.

## **KEY RATING DRIVERS**

### **Credit Strengths:**

Experienced promoters with established track record: The GG Group is promoted by Mr. Gurdas Garg and his son, Mr. Kunal Garg having over 15 years of experience in this trade. Both promoters look after the overall routine business affairs of the Company. Thus, the group benefits from the long term experience of the promoters in this sector.

Adequate gearing profile: The Company's gearing ratio remains adequate at 0.08x with low secured debt borrowings availed as on date. TNW of the Company remains moderate at Rs. 18.03 Cr as on 31.03.2019.

Group Support: The company is a part of the 'GG Group' based in Bathinda which provides business synergies and financial support. The group comprises businesses related to trading of edible and non-edible oils

### **Credit Risks:**

Decline in turnover levels and low profitability margins reported: Turnover of the Company declined significantly from Rs. 155.77 Cr in FY18 to Rs. 70.55 Cr in FY19. Its profitability margins also remained low at 0.19% during FY19 as its turnover generated entirely through high-seas trading activity.

Loans extended to its group entities: The Company has substantial exposure to its group entities as it has reported short-term loans & advances of Rs. 17.81 Cr in FY19 as against Rs. 14.47 Cr in FY18. The said investments are close to the Company's actual tangible net worth position from which it is not generating any revenues. BWR notes that there is a cash flow fungibility among the group entities as they extend short term loans to each other as per the liquidity requirements. This leads to a high TOL/TNW ratio for some entities.

Exposure to risks arising from price fluctuations, forex risks, counterparty risks & regulatory changes: In case of high-seas or merchant trade, there is a time gap between imports and actual sales made which may lead to significant price fluctuation problems. The Company is also exposed to FX fluctuation risks, as it makes purchases in USD and sells it at INR prices in the domestic market. It has reported FX loss of Rs. 1.66 Cr in FY19 as against FX loss of Rs. 0.43 Cr in FY18. Further, counterparty risk can also arise as the Company deals with some customers located at Kandla port. In the event of these customers failing to take delivery or delay in making payments, the Group's receivable levels may increase significantly over the medium term.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has applied its rating methodology on a group approach basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The financial performance of the group entities have been consolidated to arrive at the rating on account of having common business synergies and cash flow fungibility. Details of the Companies/Firms considered for arriving at the rating are given in Annexure II.



### **RATING SENSITIVITIES:**

Positive: The rating may favor an upgrade in case the Company is able to increase its turnover levels significantly, improve its profitability margins to at least 1%, bring down its trade payable levels, and recover its advances extended to its group entities.

Negative: BWR may revise the rating downwards, if the Company is unable to achieve the aforesaid financial numbers.

### **LIQUIDITY POSITION:**

Liquidity position of the Company is below average as it reported high trade payables against the current assets (excluding short-term loans & advances) available coupled with significant amount of funds being extended to its various group entities during FY19. The unencumbered cash & cash equivalents declined significantly from Rs. 13.98 Cr in FY18 to Rs. 0.07 Cr in FY19. The Company avails mainly LC's (Non Fund Based limits) for its operations with a usance period of 180 days. The ability of the Company to recover its advances extended to its group entities and make funds available as and when FLC's gets due remain the key rating sensitivity.

### **ABOUT THE COMPANY**

GK Proteins Pvt Ltd is a part of G.G. Group, based out in Bathinda, Punjab. The company is promoted by Mr. Gurdas Garg and his son Mr. Kunal Garg, who look after the overall operations of the company. The Company is engaged in the trading of non-edible and edible oil such as crude palm oil, soya bean oil, etc. by importing the same from overseas market and selling in the domestic market on high seas trading basis

### **ABOUT THE GROUP**

GG Group comprises 16 entities which are engaged in the same business activity of importing edible and non-edible oil and selling in the domestic market on a high seas trade basis. The said companies import goods via opening site LC's or usance LC and sell it to the common set of customers which are mainly located near the port. The GG Group has also acquired storage houses of 60000 MT capacity in Kandla, Gujarat from where it carries out its trading activities.

### **KEY FINANCIAL INDICATORS**

<b>Key Parameters</b>	<b>Units</b>	<b>2018</b>	<b>2019</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	Rs. Crores	155.77	70.55
EBITDA	Rs. Crores	1.74	2.39
PAT	Rs. Crores	0.21	0.14
Total Tangible Net Worth	Rs. Crores	17.83	18.03

TOL/TNW	Times	2.62	0.98
ISCR	Times	1.74	4.48

**Rating History for the last three years ( including withdrawn and suspended ratings)**

S.No	Facility	Current Rating			Rating History		
		Type	Amt (₹ Crs)	Rating	25 July 2019	24 July 2018	15 June 2017
1	Fund Based Cash Credit	Long Term	1.00	BWR BBB-/Stable (Reaffirmed)	Rating Not Reviewed Advisory	BWR BBB-/Stable (Upgrade)	BWR BB+/Stable
2	Non Fund Based ILC/FLC	Short Term	19.00	BWR A3 (Reaffirmed)	Rating Not Reviewed Advisory	BWR A3 (Upgrade)	BWR A4+
<b>Total</b>			<b>20.00</b>	<b>₹ Twenty Crores Only</b>			

Status of non-cooperation with previous CRA - N.A.  
Any other information: Nil

**#Annexure I**

**Details of Bank Facilities rated by BWR**

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	UCO Bank	Cash Credit	1.00	-	1.00
		ILC/FLC	-	19.00	19.00
<b>Total</b>			<b>1.00</b>	<b>19.00</b>	<b>20.00</b>

## Annexure II

S.No.	Companies/Firms under G.G. Group
1	G.K. Proteins Pvt. Ltd
2	Gurdas Agro Pvt. Ltd
3	G.G. Continental Trades Pvt. Ltd
4	G.K. Continental Trades Pvt. Ltd
5	G.G. Oils & Fats Pvt. Ltd
6	Kunal Exports & Infrastructure
7	Gurdas Exports
8	Vinayak Agro
9	Salasar Foods
10	GK Exim
11	J.J. Exports
12	Neeharika Oils
13	SSD Overseas
14	Shree Krishna Enterprises
15	Shree Balaji Exports
16	Siddhivinayak Exports

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)
- [Short Term Debt](#)
- [Ratings based on Group Support](#)

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