

February 10, 2022 Revised

## Amar Impex: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Packing Credit (PC)/ Packing Credit in Foreign Currency (PCFC)/Bills Discounting (BD)	16.25	8.25	[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed
Foreign Letter of Credit (FLC)	3.00	3.00	[ICRA]A3+; Reaffirmed
Bank Guarantee (BG)	0.25	0.25	[ICRA]A3+; Reaffirmed
PC/PCFC <sup>^</sup>	(17.00)	(3.00)	[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed
<b>Total</b>	<b>19.50</b>	<b>11.50</b>	

\*Instrument details are provided in Annexure-1

<sup>^</sup>Sub-limit

### Rationale

The reaffirmation of ratings for Amar Impex factors in the firm's stable financial performance as marked by steady revenue growth, comfortable capital structure and healthy coverage indicators owing to its limited dependence on external debt. Despite some disruptions owing to the Covid-19 pandemic, the firm registered revenue of Rs. 113.1 crore in FY2021 and that of Rs. 115.7 crore in 9M FY2022<sup>1</sup> (April to December 2021). Steady internal accrual generation has led to relatively low reliance on debt, translating into low leverage and adequate liquidity position for the firm. Additionally, the ratings continue to factor in the firm's extensive operational track record and extensive experience of its partners in the chemical trading business, resulting in established relationships with its customers and suppliers. The firm's financial flexibility is enhanced to some extent as it is a part of the Amar Group, which has a moderate financial profile with limited reliance on external borrowings.

The ratings, however, remain constrained by the firm's moderate operating scale and the vulnerability of its profitability to adverse fluctuations in the prices of various traded chemicals and forex risks, given the significant exports and limited imports; although the risk is mitigated to an extent by the hedging policy followed by the firm. Further, stiff competition in the chemical trading business with low entry barriers limits its pricing flexibility. ICRA also notes the partnership status of the firm, whereby any substantial withdrawals from the partner's capital account may adversely affect the capital structure.

The Stable outlook on the long-term rating factors in the benefits arising from the firm's established operational track record in the chemicals/dyes export business, its ability to report profits across business cycles, along with its comfortable debt protection metrics.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of partners in the chemical trading business** - The operations of Amar Impex are headed by Mr. Bharat Chheda, Mr. Vasant Visaria and Mr. Dhaval Visaria, who are the key partners of the firm. They have an extensive experience in the trading of chemicals and the agricultural commodities. The operations of the firm continue to benefit from the strong experience of its key management personnel which has resulted in established relationships with its customers and suppliers.

<sup>1</sup> As per provisional financials

Customer diversification was low as the top ten customers contributed ~84% to its total revenues during FY2021, which increased from 55-60% during FY2019 and FY2020. The firm procures its products from the domestic market, where it enjoys established relationships with its suppliers (around 50% suppliers repeated on YoY basis), backed by the strong experience of its partners in the industry. Procurement has also remained moderately diversified as its top ten suppliers contributed ~60-70% to its total procurements in FY2019 and FY2020, which increased to 96% in FY2021.

**Established position of the Group in various businesses with overall healthy group financial profile providing financial flexibility** - Amar Impex is a key entity of the Amar Group of companies. The firm also has a sister concern, Amar International, which trades in and exports agro-commodities and cotton yarn. The Group is involved in diverse businesses and has a moderate financial profile with limited reliance on external borrowings. Being a part of a strong group provides financial flexibility to Amar Impex during unforeseen circumstances.

**Stable financial risk profile as reflect by comfortable capital structure and healthy coverage indicators** – The operations of the firm are primarily managed through its own funds and internal accruals, because of which it has limited dependence on external borrowings. The debt profile consists of only working capital borrowings of Rs. 7.1 crore as on March 31, 2021. This compared to a relatively higher net worth of Rs. 40.3 crore as on March 31, 2021 has led to a comfortable capital structure as represented by gearing of 0.2 time as on March 31, 2021 (0.0 time as on March 31, 2020). The capital structure is expected to remain comfortable given the low debt and the comparatively higher net worth. The coverage ratios remained healthy with the interest coverage ratio at 3.2 times in FY2021 (3.7 times in FY2020), while the while the Total Debt/OPBDITA ratio was at 0.7 time in FY2021, increased from 0.0 time in FY2020 due to higher debt. The capital structure is expected to remain comfortable given the low debt and the comparatively higher net worth; however high interest cost (due to the interest on partner's capital) will keep the interest coverage ratio between 3 to 4 times in the next three years.

## Credit challenges

**Moderate scale of operations** – Even though the firm's scale of operations witnessed a 16% growth to Rs. 113.1 crore in FY2021 from Rs. 97.2 crore in FY2020, it has remained moderate during the last five years. The sales growth continued in the current fiscal with the entity registering Rs. 115.7 crore in 9M FY2022 (April to December 2021).

**Profitability susceptible to volatility in basic commodity prices as well as currency fluctuations** – The profitability of Amar Impex remains exposed to the fluctuations in basic commodity prices due to the moderate level of inventory maintained by the firm. Given the highly competitive market, the ability to pass on such price fluctuations remains limited. Further, the firm faces a significant exposure to the forex market, as around 90-95% of its total revenue is generated through exports, which along with limited imports lead to a lack of natural hedge. Thus, the margins remain susceptible to currency fluctuations. However, the firm partially hedges its currency risk by undertaking forward contracts on a regular basis, which minimises the currency fluctuation risk to a certain extent.

**Competitive nature of industry limiting profitability** – Given the trading nature of business and low entry barriers, the firm faces competitive pressure in the industry from domestic as well as international markets, which limits the profit margins. However, it deals in chemicals/dyes in a niche segment, which along with its efficient sourcing management and established relationships with its customers mitigate the risk to an extent, as is evident from its profitability.

**Risk related to partnership status** – The partners' capital has been regularly withdrawn to a certain extent over the last few years. ICRA also notes the partnership constitution of the firm, wherein any significant capital withdrawal may lead to an adverse capital structure and trigger an adverse credit action.

## Liquidity position: Adequate

The liquidity position of Amar Impex is **adequate** supported by steady internal accrual generation, free cash and liquid investment of Rs. 10.1 crore as on December 31, 2021, of which Rs. 8.4 crore is invested in mutual funds. Also, there is ~Rs. 6 crore buffer available from its fund-based working capital limits as on December 2021, which provides comfort to the firm's liquidity profile. The average utilisation of fund-based working capital limits remained low at 38% in the 12-month period ended December 2021. The firm did not have any outstanding term loan as on December 31, 2021 and, thus, the repayment burden remains nil.

## Rating sensitivities

**Positive factors** – Amar Impex's ratings are likely to be upgraded if its scale of operations grows to the extent that its competitive position is enhanced, along with sustained improvement in profitability metrics. Considerable strengthening of net worth also remains critical for an upward rating movement.

**Negative factors** – Negative pressure on the rating could arise following a significant decline in scale of operations or profitability, as well any high withdrawals from the partner's capital account, deteriorating the liquidity position. The ratings can also be downgraded if the interest coverage ratio falls below 2.8 times, on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Amar Impex, established in 1991, is a partnership firm that trades in dyes and benzene intermediates, optical brighteners, printing gums and several other chemicals, which are procured from the domestic market and exported to various countries. Amar Impex is a part of the Amar Group of companies. Apart from Amar Impex, the Group has four other entities—namely, Amar International, which trades in and exports agro-commodities and cotton yarns; Color Technology, which trades in chemicals; Amar Industries, which exports writing instruments; and Amar Exim, which trades in pens, agro-commodities and chemicals. Amar Impex and Amar International are the key companies in the Amar Group. The firm's registered office is in Mumbai.

## Key financial indicators (Audited)

Amar Impex – Standalone	FY2020	FY2021
Operating Income (Rs. crore)	97.2	113.1
PAT (Rs. crore)	5.3	6.0
OPBDITA/OI (%)	11.2%	9.7%
PAT/OI (%)	5.4%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDITA (times)	0.0	0.7
Interest Coverage (times)	3.7	3.2

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation. Total assets and net worth exclude revaluation reserves  
 Note: Amount in Rs. crore; All calculations are as per ICRA Research. Source: Company, ICRA Research

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

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					February 10, 2022	December 10, 2020	December 13, 2019	September 11, 2018	
1	PC/PCFC/BD	Long Term & Short Term	8.25	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB-(Stable)/ [ICRA]A3	
2	PC/PCFC*	Long Term & Short Term	(3.00)	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB-(Stable)/ [ICRA]A3	
3	FLC	Short Term	3.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	
4	BG	Short Term	0.25	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	
5	FLC	Long Term & Short Term	-	-	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB-(Stable)/ [ICRA]A3	

\*Sub-limit

## Complexity level of the rated instruments

Instrument	Complexity Indicator
PC/PCFC/BD	Simple
PC/PCFC	Simple
FLC	Very Simple
BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	PC/PCFC/BD	-	-	-	8.25	[ICRA]BBB(Stable)/[ICRA]A3+
-	PC/PCFC*	-	-	-	(3.00)	[ICRA]BBB(Stable)/[ICRA]A3+
-	FLC	-	-	-	3.00	[ICRA]A3+
-	BG	-	-	-	0.25	[ICRA]A3+

Source: Company, \*Sub-limit

[Please click here to view the details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

## Corrigendum

Document dated February 10, 2022 has been corrected with revision as detailed below:

Revisions: - Page 3- OPBDITA/OI (%) for FY 2021 in the “Key Financial Indicator” have been corrected.

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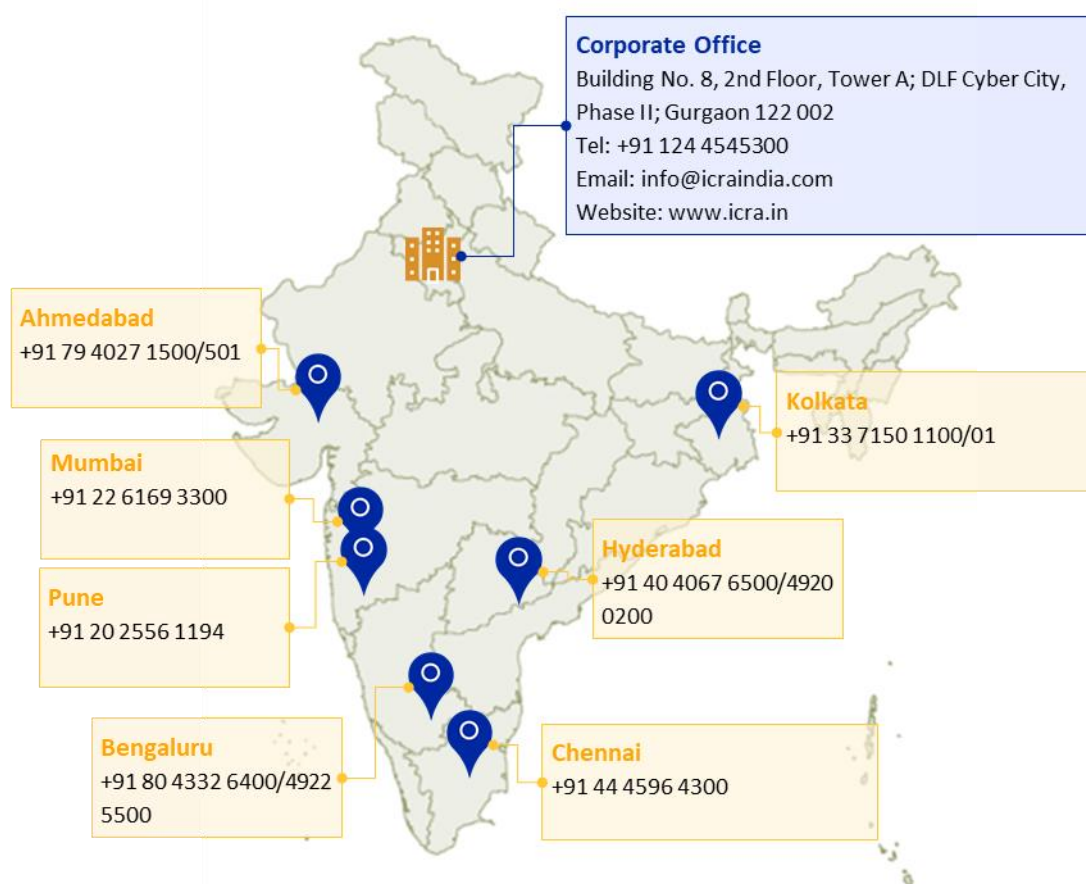
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