

February 10, 2022

Amar International: 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)	27.30	25.00	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Packing Credit (PC)/Packing Credit in Foreign Currency(PCFC)^	(19.00)	(20.00)	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Total	27.30	25.00	

*Instrument details are provided in Annexure-1

^Sub-limit

Rationale

The reaffirmation of ratings for Amar International factors in the firm's steady performance with revenue of Rs. 304.1 crore in FY2021 and Rs. 263.1 crore in 9M FY2022¹, despite some disruptions owing to the Covid-19 pandemic. Additionally, the ratings continue to factor in the firm's established operational track record and the extensive experience of its partners in the cotton yarn and agro-commodities trading business, resulting in established relationships with its customers and suppliers. ICRA also notes the firm's geographically diversified customer base, with sales to more than 30 countries around the world. Moreover, 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 low profitability and the vulnerability of its operations to adverse fluctuations in the prices of various commodities 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 agro-commodity trading business with low entry barriers limits the pricing flexibility of the firm. 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 cotton yarn and agro-commodities export business along with its comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of partners in the agro-commodity trading business – The operations of Amar International are headed by Mr. Vasant Visaria, Mr. Dhaval Visaria and Mr. Vivek Visaria, who are the key partners of the firm. They have an extensive experience in the trading of cotton yarn, chemicals/dyes and agricultural commodities. The firm has an established operational track record and continues to benefit from the extensive experience of its key management personnel, which has resulted in established relationships with its customers and suppliers; and scaling up of business operations.

¹ As per provisional financials

Established position of the Group in various businesses with overall healthy group financial profile providing financial flexibility – Amar International is a key entity of the Amar Group of companies. The firm also has a Group entity, Amar Impex, which trades in and exports various dyes and chemicals. 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 International during unforeseen circumstances.

Geographically diversified customer base – The customer profile of the firm includes fabric and garment manufacturers, agro commodity traders and direct manufacturers in the international agro-processing market. The firm exports its products to more than 30 countries across the globe, which drove around 95% of the firm's revenue, while the top 10 countries generated ~85% of its total revenues over the last three years. Customer concentration was moderate as its top 10 customers contributed ~42% to its total revenues during both FY2020 and FY2021. The firm procures its products from the domestic market, where it enjoys established relationships with its suppliers backed by the strong experience of its partners in the industry. Procurement has also remained diversified as its top 10 suppliers contributed ~42% to its total procurements in FY2019 and FY2020, which decreased to 34% in FY2021. The firm has shown steady performance in FY2021 with a revenue growth of 55% to Rs. 304.1 crore, which continued into the current year with revenues of Rs. 263.1 crore in 9M FY2022.

Credit challenges

Low profitability due to trading nature of business; margins susceptible to volatility in currency fluctuations – The profitability of Amar International remains exposed to the fluctuations in basic commodity prices. Given the highly competitive market, its ability to pass on such price fluctuations remains limited. Further, the firm faces 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 risk to a certain extent.

Scale of operations susceptible to agro-climatic conditions and commodity price volatility – The operations of the firm and trading volumes of various commodities are highly dependent on climatic conditions and monsoons in the domestic as well as overseas markets. Droughts, floods and untimely rains in key spice growing areas affect domestic production and their prices. At times, when imports are attractive, the Government's import restrictions such as the levy of minimum import price to protect domestic farmers may pose pressure on procurements.

Working capital intensive nature of operations, though dependence on bank borrowing remains low – The sale of cotton yarn is majorly backed by Letter of Credit (LC), while the firm allows a credit period of around 30 days to its other customers. It prefers to make spot payments or payments within a week to its suppliers to receive raw materials at discounted rates. Based on the demand, the firm holds an inventory in the range of 7–15 days. The firm's debtors' position as well as early payments to suppliers for margin benefits leads to moderate working capital intensity in the operations as represented by NWC/OI of 18% during FY2021 (20% in FY2020). However, the operations are primarily carried through its own funds, due to which the working capital utilisation stood moderate at an average of 56% during the 12-month period ended December 2021.

Competitive nature of industry with large number of players limiting the firm's profitability – Given the trading nature of the business and low entry barriers, the firm faces competitive pressure in the industry from domestic as well as international markets, which limits its profit margins.

Risk related to partnership status – ICRA 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 International is **adequate** supported by steady internal accrual generation, free cash of Rs. 6.2 crore as on December 31, 2021 and no debt-funded capex plans given the trading nature of operations. Also, there is ~Rs. 11

core buffer available from its fund-based working capital limits (as on December 2021), which also supports its liquidity profile. The average utilisation of fund-based working capital limits remained moderate at 56% in the 12-month period ended December 2021. The firm did not have an outstanding term loan as on December 31, 2021 and, thus, the debt repayment burden remains nil.

Rating sensitivities

Positive factors – Amar International's ratings are likely to be upgraded if its scale of operation grows to the extent that its competitive position is enhanced, along with sustained increase 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 as any high withdrawals from the partner's capital account, impacting the liquidity. 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	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Amar International, established in 1981, is a partnership firm that trades in agricultural commodities and cotton yarn. The firm trades in different types of agricultural commodities, namely sesame seeds, groundnuts and several spices like cumin seeds, chilly, turmeric, dry ginger, fenugreek seeds and nutmeg, which are procured from the domestic market, cleaned & sorted, after which they are exported to various countries. Amar International is a part of the Amar Group of companies. Apart from Amar International, the Group has four other entities—namely, Amar Impex, which trades in chemicals and dyes; Color Technology, which trades in chemicals; Amar Industries, which exports writing instruments; and Amar Exim, which trades in pens, agro-commodities and chemicals. Amar International and Amar Impex are the key companies of the Group. The firm's registered office is in Mumbai.

Key financial indicators (Audited)

Amar International - Standalone	FY2020	FY2021
Operating Income (Rs. crore)	196.1	304.1
PAT (Rs. crore)	1.5	2.9
OPBDITA/OI (%)	2.2%	1.9%
PAT/OI (%)	0.8%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDITA (times)	3.8	4.7
Interest Coverage (times)	3.3	3.7

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	25.00	-	[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	(20.00)	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	
3	Foreign Letter of Credit*	Short Term	-	-	-	-	-	[ICRA]A3	
4	Bank Guarantee	Short Term	-	-	-	-	-	[ICRA]A3	
5	FBE*	Long Term & Short Term	-	-	-	-	-	[ICRA]BBB-(Stable)/[ICRA]A3	

*Sub-limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
PC/PCFC/BD	Simple
PC/PCFC	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

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	-	-	-	25.00	[ICRA]BBB-(Stable)/[ICRA]A3
-	PC/PCFC*	-	-	-	(20.00)	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company, *Sub-limit

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

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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 328

shamsherd@icraindia.com

Deepak Jotwani

+91 124 4545 870

deepak.jotwani@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Srideep Datta

+91 22 6114 3451

srideep.datta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.