

December 10, 2020

Amar International: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	40.50	27.30	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Fund-based sub-limits	(29.00)	(19.00)	[ICRA]BBB- (Stable) / [ICRA]A3; Reaffirmed
Total	40.50	27.30	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to consider the extensive experience of Amar International's partners in the multi-commodity trading business, its extensive relationships with customers with a geographically diversified base. The ratings also continue to factor in the financial flexibility being derived from it being a part of the Amar Group with a presence in diverse businesses coupled with moderate financial profile and limited reliance on external borrowings.

The rating, however, continues to remain constrained by the firm's low profit metrics, attributed to the limited value addition in the trading business, coupled with stiff competition in the market, which limits pricing flexibility. In addition, the pandemic induced disruption and any unprecedented changes in export incentive structure in the near term may further impact the scalability and profitability to an extent in the near to medium term. ICRA also notes the vulnerability of the profit margins to currency risk due to significant exports, though it is partially mitigated by regular hedging activities. The ratings continue to remain constrained by the firm's working capital intensive nature of operations due to the higher credit period offered to customers and tight payment terms with suppliers.

The Stable outlook on the long-term rating in ICRA's opinion reflects that the company will continue to benefit from the extensive experience of its promoters in the trading business in the international market, which will enable the firm to grow at a moderate scale with better profit margins, going ahead.

Key rating drivers and their description

Credit strengths

Extensive experience of partners in multiple goods trading – The firm's key partners, Mr. Vasant Visaria, Mr. Dhaval Visaria and Mr. Vivek Visaria have extensive experience in the trading of chemicals, agricultural commodities and multiple commodity goods. Further, the firm's key management personnel, Mr. Rushabh Visaria and other members of the Visaria family, also have extensive experience in the trading business. The operations of the firm continue to benefit from the strong experience of its key management personnel and partners, coupled with its established relationships with its customers and suppliers.

Established position of Group in various business sectors, with overall strong Group profile providing financial flexibility

- Amar International is a key entity within the Amar Group of companies, involved in the trading of agricultural commodities and cotton yarn. The firm also has a sister concern, Amar Impex, which is involved in trading and exports of dyes and

chemicals. On a consolidated basis, 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 from China, agro commodity traders and direct manufacturers in the agro-processing industry in international markets. The firm exports its products to more than 15 countries across the globe, which contributed to around 95% of the firm's revenue, while the top 10 countries contributed ~72-85% to its total revenues over the last three years. Also, the revenue contribution from its top 10 customers stood at ~43% in FY2020, which indicates a moderate customer concentration risk.

Credit challenges

Low profitability due to trading nature of business; pandemic induced disruption and unprecedented changes in export incentive structure in near term may further impact the scalability and profitability in the near to medium fiscal - The firm's OPM, continued to remain low due to the trading nature of the business. It further decreased from 2.50% (considering forex gain and loss as part of operating income) in FY2020 to 2.27% in FY2019 owing to increase in other operational, general and administrative expenses. Further, due to the ongoing covid-19 pandemic-induced disruption and expected changes in Government incentive structure in terms of scrapping of the existing Merchandise Export from India Scheme (MEIS), which is to be replaced by Remission of Duties or Taxes on Export Product (RoDTEP) scheme (having expected lower incentive than MEIS) from January 2021, the scale and profitability may be impacted to an extent in the near to medium term.

Working capital intensive nature of operations, though dependence on bank borrowing remains low - Amar International generally allows a credit period of around 60 to 90 days for its customers while 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 to 15 days. A higher 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 19.57% during FY2020. However, the operations of the firm are primarily carried through its own funds, due to which the working capital utilisation stood moderate at an average of 16.33% during the last 12 months ended September 2020.

Margins susceptible to volatility in currency fluctuations – The firm also has significant exposure to the forex market as around 95% of its total revenue is generated through exports. Significant exports against lack of imports leads to lack of a natural hedge in the firm's operations. Margins, therefore, remain susceptible to currency fluctuations in the foreign exchange market, as the Indian Rupee has proved to be volatile for the last few years. 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.

Revenues 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 the international markets. Droughts, floods and untimely rains in key spice growing areas affect domestic production and the prices of the same. At times, when imports are attractive, the Government's import restrictions like levy of minimum import price to protect domestic farmers pose pressures on procurements.

Competitive nature of the industry due to large number of players in the field - Given the trading nature of the business and low entry barriers, the firm faces intense competitive pressure in the industry from domestic as well as international markets, which limits the margins.

Risk related to partnership status of the firm – ICRA notes the firm's partnership constitution, wherein any significant capital withdrawal may lead to an adverse capital structure and may trigger an adverse credit action.

Liquidity position - Adequate

The company does not have an outstanding term loan as on March 31, 2020. Thus, the repayment burden remains nil. The company had free cash of Rs. 0.08 crore as on September 30, 2020. However, the company had adequate buffer from the sanctioned fund-based bank facilities, as the utilisation of the fund-based limits stood at an average of 16.33% during the last 12 months ended September 2020, while utilisation remained low at 7.33% during September 2020 leaving a buffer of almost Rs. 25.30 crore against the sanctioned fund-based limits of Rs. 27.30 crore as on September 30, 2020.

Rating sensitivities

Positive triggers – The ratings of the firm 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 movement of rating

Negative triggers – Negative pressure on the rating could arise following a significant decline in scale of operations or profitability, as well as higher-than-expected withdrawals from the partner's capital account.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the firm.

About the company

Amar International, incorporated in 1981 by Mr. Vasant Visaria, 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. Since FY2015, the firm also commenced exports of cotton yarn, particularly to China, Bangladesh and Pakistan. It has a registered marketing office in Mumbai, a processing unit in Mundra (Gujarat) and a rented warehouse in Navi Mumbai (Maharashtra). Mr. Vasant Visaria, Mr. Dhaval Visaria and Mr. Vivek Visaria are equal partners of the firm. Amar International is one of the key entities within the Amar Group of companies, which includes Amar Impex, which trades in and exports dye and benzene intermediates, colour technology, while also trading in chemicals. Amar Industries also exports pens and pencils and Amar Exim trades in pens, agro commodities and chemicals. Amar International and Amar Impex are the key companies in the Amar Group of companies.

The firm recorded a net profit of Rs. 1.52 crore on an operating income of Rs. 196.22 crore as per the provisional financial statement of FY2020, against a net profit of Rs. 1.85 crore on an operating income of Rs. 227.32 crore as per the audited statement of FY2019.

Key financial indicators

	FY2019	FY2020
	Audited	Provisional
Operating Income (Rs. crore)	227.32	196.22
PAT (Rs. crore)	1.85	1.52
OPBDIT/OI (%)	2.50%	2.27%
RoCE (%)	10.47%	8.98%
Total Outside Liabilities/Tangible Net Worth (times)	1.01	1.11
Total Debt/OPBDIT (times)	3.46	3.73
Interest Coverage (times)	2.30	3.34
DSCR	1.90	2.47

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					10-Dec-2020	13-Dec-2019	11-Sept-2018	7-July-2017
	Fund based - PC/PCFC/FBD/FBE/BRD	Long Term & Short Term	27.30	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3
	Fund based – PC/PCFC (sub-limit of fund-based limit)	Long Term & Short Term	(19.00)	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3
	Fund based – FBE (sub-limit of fund-based limit)	Long Term & Short Term	-	-	-	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3
	Non-fund based – FLC	Short Term	-	-	-	-	[ICRA]A3	[ICRA]A3
	Non-fund based – Bank Guarantee	Short Term	-	-	-	-	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - PC/PCFC/FBD/FBE/BRD	-	-	-	27.30	[ICRA]BBB-(Stable) / [ICRA]A3
NA	Fund-based – PC/PCFC (sub-limit of fund based limit)	-	-	-	(19.00)	[ICRA]BBB-(Stable) / [ICRA]A3

Source: Amar International

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

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Srinivas Menon

+91 22 6169 3354

srinivas.menon@icraindia.com

Nandan Shah

+91 22 61693353

nandan.shah@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 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