

## Amar Impex

September 11, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	8.25	8.25	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Non-fund based Limits	3.25	3.25	[ICRA]A3; Reaffirmed
Fund based sub-limits	(3.00)	(3.00)	[ICRA]BBB- (Stable) / [ICRA]A3; Reaffirmed,
<b>Total</b>	<b>11.50</b>	<b>11.50</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and the short-term rating of [ICRA]A3 (pronounced ICRA A three) for the Rs. 11.50-crore<sup>1</sup> bank facilities of Amar Impex<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The ratings, reaffirmation continue to take into account the extensive experience of the partners in the chemical trading business, its longstanding relationship with customers and suppliers and the firm's diversified customer profile across a diverse set of industries, which mitigates industry-specific demand risk. The ratings also draw comfort from the firm's favourable capital structure attributable to the limited reliance on bank borrowings to fund its working capital requirements which are largely supported by internal accruals. The ratings also continue to factor in the strengths derived from being a part of a well-established group (Amar Group of Companies) in terms of access to wide distributor network and other operational support.

The ratings, however, continue to remain constrained by Amar Impex's moderate scale of operations which limits economics of scale, its vulnerability of profitability to adverse fluctuations in the prices of various traded chemicals and its susceptibility to forex risk because of significant exports and limited imports, although the risk is mitigated to an extent by hedging policy followed by the firm. Furthermore, stiff competition in chemical trading business with low entry barriers, limits pricing flexibility of the firm. The ratings continue to remain constrained by working capital intensive nature of operations due to adverse credit terms with customers and suppliers along with moderate inventory holding, though the dependence on bank borrowing remains low. ICRA also takes a note of partnership status of the firm, whereby any substantial withdrawals from the partner capital account will adversely affect the capital structure.

### Outlook: Stable

ICRA believes Amar Impex will continue to benefit from the extensive experience of its partners in chemical industry. The outlook may be revised to 'Positive' if considerable uptick in profitability levels is witnessed backed by improvement in operational efficiency along with improvement in working capital cycle by reduction in receivable position and inventory levels. Conversely, the outlook may be revised to 'Negative' if cash accrual is lower than expected due to reduction in revenues or margins, deterioration in capital structure due to capital withdrawal, or stretch in the working capital cycle due delayed payments from customers, leading to a stretch in the working capital cycle.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Extensive experience of partners in the chemical trading business** - The operations are headed by Mr. Bharat Chheda, Mr. Vasant Visaria and Mr. Dhaval Visaria who are also the key partners of the firm. The partners have longstanding experience in the trading of chemicals and agricultural commodity business. The operations of the firm continue to benefit from the strong experience of the key management personnel's and the partners, coupled with established relation with the customers and suppliers.

**Established position of the group in various business with overall healthy group financial profile** - Amar Impex is also a key entity within the Amar group of companies. The firm has four sister concerns—Amar International (trading and exports of agro commodities and cotton yarn), Color Technology (trading of chemicals), Amar Industries (exports of pens and pencils) and Amar Exim (trading of pens, agro commodities and chemicals). On a consolidated basis, the group is engaged in diverse business and have a moderate financial profile with limited reliance on external borrowings.

**Diversified & repeated customer and supplier base** - Customer diversification continued to remain moderate as its top 10 customers contributed ~50% to total revenues during the last three years. While, top customer contributed around 9% to total revenues during the last two years. The firm procures its products from the domestic market, where it enjoys established relationships with its suppliers, backed by the strong experience of partners in the industry. Procurements also remained moderately diversified as its top 10 suppliers contributed ~60-65% to total procurements.

### Credit challenges

**Moderate scale of operation** - The firm's operating income (OI) has increased marginally by ~6% to Rs. 88.43 crore in FY2018 as compared to OI of Rs. 83.48 crore achieved in previous financial year, backed by increase in demand of dye and benzene intermediates from China. However, the overall scale of operation continues to remain moderate which limits the benefits from economics of scale. Furthermore, being in the trading business, the firm has witnessed a fluctuating OI during the last few years, backed by changes in demand from international markets.

**Margins susceptible to volatility in basic commodity prices as well as currency fluctuations** - Crude oil is a major cost driver in the chemical industry, because many of the key products are directly produced from oil or its derivatives. Changes in oil prices have a significant impact on the cost structure of these chemicals, and thus drive changes in the market prices. As the prices of crude are volatile in nature, the profitability of the firm remains exposed to these fluctuations. Given the highly competitive market, the ability to pass on such price fluctuations remains limited. Further, the firm also has significant exposure to the forex market as around 90-95% of its total revenue is contributed through exports. Significant exports against limits imports lead to lack of natural hedge. Due to the same, margins remain susceptible to currency fluctuation in the foreign exchange market, as the Indian Rupee has been highly fluctuating during the last few years. However, the firm partially hedges its currency risk by undertaking forward contracts on a regular basis which minimise the currency fluctuation risk to certain extent.

**Competitive nature of the industry due to presence of large number of players in the industry** - Given the trading nature of 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. However, the firm's strong and established relationship with its customers and efficient sourcing management mitigates the risk to an extent as evident from its moderate profitability.

**Working capital intensive nature of operations due to adverse credit terms with customers and suppliers** - Amar Impex generally allows a credit period of ~45 to 90 days for its customers while it prefers to make spot payments or payments within a week's period to its suppliers to receive raw materials at discounted rates. Based on demand of products, Amar Impex holds an inventory in the range of ~30 to 60 days. Marginal increase in debtors position as well as decrease in creditors position as on 31<sup>st</sup> March 2018 lead to increase in working capital intensity as indicated by NWC/OI of ~28.4% as on March 31, 2018.

**Risk related to partnership status of the firm** – Partners’ capital has been regularly withdrawn to certain extent over last few years. ICRA also takes a note on the partnership constitution of the firm wherein any significant capital withdrawal may lead to adverse capital structure and may trigger and adverse credit action.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Rating Methodology](#)

[Rating Methodology for Entities in the Chemical Industry](#)

#### About the Firm:

Amar Impex, established in 1991, is a partnership firm engaged in trading of dye and benzene intermediates, optical brighteners, printing gums and several other chemicals. The firm has its registered office located at Dadar, Mumbai. Mr. Bharat Chheda, Mrs. Jyoti Chheda, Mr. Vasant Vasaria and Mr. Dhaval Vasaria are equal partners of the firm having an experience of more than three decades in the same line of business. Amar Impex is one of the key entities within Amar Group of companies. The firm has four sister concerns, namely Amar International which is engaged into trading and exports of agro commodities and cotton yarns, Color technology, which is also engaged into trading of chemicals, Amar Industries, which is engaged in exports of pens & pencils and Amar Exim which is engaged into trading of pens, agro commodities and chemicals.

The firm has recorded a profit before tax of Rs. 6.19 crore on an operating income of ~Rs. 88.43 crore as per FY2018 provisional statement against a net profit of Rs. 2.76 crore on an operating income of ~Rs. 83.48 crore for FY2017.

#### Key financial indicators

	<b>FY2017 Audited</b>	<b>FY2018 Provisional</b>
Operating Income (Rs. crore)	83.48	88.43
PAT (Rs. crore)	2.76	6.19*
OPBDIT/ OI (%)	7.33%	8.69%
RoCE (%)	3.30%	7.00%
Total Debt/ TNW (times)	0.00	0.13
Total Debt/ OPBDIT (times)	0.00	0.40
Interest Coverage (times)	3.07	3.96

\*PBT

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

#### Any other information: None

### Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					Sept 2018	July 2017	July 2016	April 2015	
1	Fund based - PC/PCFC/FBD/FBE/BRD	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	Fund based – PC/PCFC (sub-limit of fund based limit)	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	Non fund based – FLC	Short Term	3.00		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	
4	Non fund based – Bank Guarantee	Short Term	0.25		[ICRA]A3	[ICRA]A3	[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 [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund-based - PC/PCFC/FBD/FBE/BRD	-	-	-	8.25	[ICRA]BBB- (Stable)/ [ICRA]A3
	Fund-based – PC/PCFC (sub-limit of fund based limit)	-	-	-	(3.00)	[ICRA]BBB- (Stable)/ [ICRA]A3
	Non-fund based – FLC	-	-	-	3.00	[ICRA]A3
	Non-fund based – Bank Guarantee	-	-	-	0.25	[ICRA]A3

Source: Amar Impex

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## 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.

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For more information, visit [www.icra.in](http://www.icra.in)

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