

February 28, 2020

## Ankit International.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limit	(45.00)	(45.00)	[ICRA]B(Stable); Reaffirmed
Short-term non-fund-based limit	45.00	45.00	[ICRA]A4; Reaffirmed
Unallocated Amount	0.50	0.50	[ICRA]B(Stable)/[ICRA]A4; Reaffirmed
<b>Total</b>	<b>45.50</b>	<b>45.50</b>	

\*Instrument details are provided in Annexure 1

### Rationale

The reaffirmation of ratings continues to remain constrained by the weak financial profile of Ankit International (AI), characterised by low profitability and return indicators due to limited value addition in the business and the high working capital intensity on account of high inventory holding and stretched receivables. ICRA also notes that the loans and advances extended by the firm to its associate concerns and outside parties, limit its financial flexibility. The ratings also remain constrained by the vulnerability of profitability to Government regulations, fluctuating foreign exchange rates and steel prices. Intense competitive pressure due to low entry barriers and low value addition in the business also limits pricing flexibility. Further, AI is a proprietorship firm and withdrawals from the capital account could affect its capital structure.

However, the ratings continue to consider the extensive experience and established track record of AI's promoters in the metal trading industry as well as the location specific advantage from the firm's proximity to its customer base.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the promoters in the metal trading business** – AI was established in 2010. The operations of the firm are managed by Mr. Pranav Jain, under the guidance of his father, Mr. Arun Jain, who has an experience of more than 40 years in the metal trading business.

**Location advantage from proximity to customer base** – AI's customers are traders, manufacturers and companies engaged in construction and engineering activities, located primarily in Maharashtra and Gujarat. The company enjoys location specific advantages from its proximity to its customer base.

#### Credit challenges

**Low profitability and return indicators because of limited value addition in the trading business** - AI's profitability has remained low on account of the trading nature of its business. The operating profit margin (OPM) remained at the same levels in FY2018 and FY2019. However, there was a sharp decline in net profit margin (NPM) in FY2019 due to a loss of Rs. 1.88 crore on commodity/derivative trading. The OPM and NPM were reported at 5.78% and 0.85%, respectively, in

FY2019 (5.44% and 4.60%, respectively, in FY2018). The return indicators also stayed low with Return on Capital Employed (RoCE) at 4.27% in FY2019, which reduced from 13.69% in FY2018 because of the dip in profitability.

**High working capital intensity owing to stretched receivables and increased inventory** – The working capital intensity of operations had increased to 53% in FY2019 (25% in FY2018) due to a stretched receivable cycle (Rs. 11.22 crore) and high inventory (Rs. 12.46 crore) as on March 31, 2019. The high inventory as on March 31, 2019 was due to year-end purchases. The company used to extend a credit period of 45-60 days to its customers, which increased in recent years because of increasing competition.

**Sizable loans and advances extended to group companies limit financial flexibility**— AI has extended significant loans and advances to its associate concerns and outside parties, limiting the firm's financial flexibility. Most of the loans extended by the firm are interest free.

**Revenues and profitability margins susceptible to Government regulations and adverse fluctuations in foreign exchange rates** – The firm imports most of its requirement of traded goods from overseas markets, while it derives the entire revenues from the domestic market. The profitability is susceptible to foreign exchange fluctuations in the absence of any hedging mechanism. In addition, AI has to maintain a high inventory level as it relies primarily on imports. This exposes its profitability to steel price fluctuations. The trading business is also exposed to the risks of regulatory interventions by way of imposition of anti-dumping duties, minimum import prices and other trade related restrictions.

**Intense competitive pressure due to low entry barriers and low value addition in the business** – The trading business is also exposed to severe competition with several organised as well as unorganised players because of low entry barriers.

**Risk of capital withdrawals in proprietorship concern** - Being a proprietorship firm, any sizeable withdrawals from the capital account may impact the net worth and, thereby, the firm's capital structure.

## Liquidity position: Stretched

AI's liquidity profile has remained **stretched** with elongated receivables and pile up of inventory, especially in FY2019, which continued in the current fiscal. However, comfort can be drawn from the high undrawn working capital limit available at the firm's disposal and the low average utilisation of working capital, which stood at 19% during the 15-month period ended in January 2020. The firm has no term loan repayment obligations or capex plans in the near to medium term.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade AI's ratings if the firm demonstrates consistent growth in revenue coupled with higher profits on a sustained basis. Improved liquidity will also be a positive factor for a rating upgrade.

**Negative triggers** – Negative pressure on the rating could arise if there is any moderation in the company's revenues and/or its profitability. The rating could also be downgraded if there is any further stretch in liquidity.

## 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

Established in 2010, AI is a proprietorship concern, owned and managed by Mr. Pranav Jain. Its primary business originally involved ship breaking. However, due to weak market conditions, the concern shifted its focus to the trading of steel pipes, ferrous, non-ferrous metals and scrap. AI has also started trading in duty credit scrips<sup>1</sup> from FY2020. The firm imports most of its supplies from USA, Hong Kong, China, Belgium and Estonia before selling them in the domestic market. The firm's registered office is in Mumbai, while its warehouse is in Navi Mumbai.

AI recorded a net profit of Rs. 0.42 crore on an OI of Rs. 49.40 crore in FY2019; while, as per the provisional numbers, it recorded a profit before tax of Rs. 2.46 crore on an OI of Rs. 68.75 crore in the 10-month period ended January 31, 2020.

## Key financial indicators (Audited)

	<b>FY2018</b>	<b>FY2019</b>
Operating Income	150.76	49.40
PAT	6.94	0.42
OPBDITA/ OI (%)	5.44%	5.78%
RoCE (%)	13.69%	4.27%
Total Debt/ TNW (times)	1.77	1.03
Total Debt/ OPBDITA (times)	3.89	6.98
Interest Coverage (times)	4.74	1.92
DSCR	5.06	1.34

Amounts in Rs. crore

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed;

TNW: Tangible Net Worth, DSCR: Debt Service Coverage Ratio

Source: Financial statements of AI and ICRA research

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

## Any other information: None

<sup>1</sup> Duty credit scrip is an export promotion incentive provided by the Government of India to promote exports by giving import tariff concessions to exporters. Under the scrip, exporters can get import tariff (customs duty) concessions to a specific percentage of their export value. These scrips can also be sold to other importers, who can reimburse duties on imported inputs.

### Rating history for the past three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating Feb-28-2020	Date & Rating in FY2019 Nov-20-2018	Date & Rating in FY2018 Jul-11-2017	Date & Rating in FY2017 Jun-6-2016
1	Cash Credit	Long-term	(45.00)	-	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B
2	Letter of Credit	Short-term	45.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated Amount	Long-term and Short-term	0.50	-	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B/ [ICRA]A4

Amount in Rs. crore

### 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](http://www.icra.in)

## Annexure 1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
-	Cash Credit	-	-	-	(45.00)	[ICRA]B(Stable)
-	Letter of Credit	-	-	-	45.00	[ICRA]A4
-	Unallocated Amount	-	-	-	0.50	[ICRA]B(Stable)/ [ICRA]A4

Amount in Rs. crore  
International

Source: Ankit

## Analyst Contacts

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Suprio Banerjee**

+91 22 6114 3443

[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Rupa Pandey**

+91 22 6114 3456

[rupa.pandey@icraindia.com](mailto:rupa.pandey@icraindia.com)

**Srideep Datta**

+91 22 6114 3451

[srideep.datta@icraindia.com](mailto:srideep.datta@icraindia.com)

## Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

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