

Infomerics Valuation And Rating

Amir Chand Jagdish Kumar (Exports) Limited

December 06, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Long Term Bank Facilities	69.27	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2	Short Term Bank Facilities	755.00	IVR A2+ (IVR A Two Plus)
	Total	824.27	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Amir Chand Jagdish Kumar (Exports) Limited (ACJKEL) derives comfort from the experienced promoters with long track record of operations of the company, locational advantage and established market position with established brands. The rating also positively considers sustained growth in scale of operations achieved by the company with its stable financial performance and a healthy order book position indicating moderate revenue visibility. The rating strengths are partially offset by exposure to intense competition in the domestic and export market, exposure to agro climatic risks, government regulation and foreign exchange fluctuations. The ratings also factor in the working capital intensive operations of the company leading to moderate capital structure with moderate debt protection metrics.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in liquidity with efficient working capital management

Downward Factors

- Deterioration in overall gearing to over 3x
- Further elongation of the operating cycle leading to weakening in liquidity position
- Adverse government regulations

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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and long track record of operations

The promoters, one Suri family have long standing presence in the rice industry. Mr. J.K. Suri, Chairman & Managing Director, has over five decades of experience in the field of manufacturing, marketing and trading of food grain. On the back of long standing experience of the promoters, the company enjoys established and healthy relationships with its customers and suppliers. The company is likely to benefit from the extensive experience of its promoters going forward.

Locational advantage

ACJKEL is engaged in milling and processing of rice and has set up rice mills in Amritsar, Punjab and Safidon, Haryana. The presence in these regions gives a competitive advantage in terms of easy availability of paddy, lower freight, and favourable pricing terms.

Established market position with established brand

The company is one of the leading suppliers of rice with presence across the country. Over the years of its presence, the company has developed various brands in the market, Aeroplane, World Cup, Alibaba, Palm Tree, Sophia, and Jet. Further, the company exports rice to Saudi Arabia, Iran, Iraq among others and generated ~59% of its operating revenue from exports of basmati rice to various countries in FY19.

Sustained growth in scale of operations with stable financial performance with a healthy order book position indicating moderate revenue visibility

Over the past three years (FY17-FY19) ACJKEL has achieved a compounded annual growth rate (CAGR) of 8.1% with a y-o-y growth of ~16% in FY19. The growth is primarily driven by sustained growth in export sales with improvement in volume sales and sales realization. During FY19, the export sales grew by ~32% mainly attributable to a bulk export order received (during H1FY19) from Indonesia. The company earned healthy cash accrual of Rs.55.32 crore in FY19 as

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against Rs.21.87crore in FY18. During H1FY20, the company has achieved total operating revenue of ~Rs.582 crore. Infomerics expects moderation in sales in FY20 as compared to the last fiscal. However, the Company's unexecuted order book stood at Rs.717.28crore as on October 31, 2019 which is to be executed within next 6-8 months. Presence of a healthy order book imparts comfort and indicates revenue visibility for the company.

Key Rating Weaknesses

Exposure to intense competition in domestic and export market

The rice milling industry and trading of rice in India is characterized by stiff competition amid presence of many organized and unorganized players. Low entry barriers coupled with low technological requirement and very less product differentiation makes the rice milling operations vulnerable and limits the pricing flexibility.

Exposure to agro climatic risks and government regulations

Paddy being an agro-commodity is susceptible to agro-climatic risks. Further, rice export segment is highly influenced by various government regulations in India and in exporting countries.

Exposure to foreign exchange fluctuations

With high export activities, the company is exposed to the risk of forex fluctuation. However, ACJKEL avails PCFC facility, and the exposure is naturally hedged.

Working capital intensive nature of operations

The operations of the company are working capital intensive as reflected in operating cycle of over 6 months in the three fiscals ending in FY19. Being an agro commodity, the procurement of paddy for the entire year is seasonal and happens during the months of October-December which increases the working capital requirement. Also basmati requires ageing to attain desired quality and ACJKEL holds the finished goods inventory for a period of at least six months. The average cash credit utilization of the company during the past 12 months ending September, 2019

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remained at ~86%. Efficient management of working capital remains a key monitorable for ACJKEL.

Moderate capital structure with moderate debt protection metrics

The debt profile of the company is largely comprised of short term debts due to its working capital intensive nature of operation. Owing to its large short term borrowings, the overall gearing ratio of the company remained high as on the past three account closing dates. The overall gearing ratio [after considering unsecured loan (Rs.4.90crore as on March 31,2019 and Rs.3.30crore as on March 31,2018 respectively) from the directors as quasi equity] though improved from 3.06x as on March 31, 2018 to 2.82x as on March 31, 2019 continued to remain high. However, total indebtedness of the company remained moderate at 3.40x as on March 31, 2019 (3.54x as on March 31, 2018). Further, debt protection metrics also remained moderate with interest coverage ratio and Total debt/GCA at 2.25x and 11.91x respectively in FY19 (PY: 1.56x and 30.66x respectively).

Analytical Approach:Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity position of the company is impacted due to its high working capital intensity marked by high inventory holding requirements attributable to its nature of business. Further, with high utilisation (~86% in the trailing 12 months ending on September, 2019) in its fund based limit the company has a limited liquidity buffer. Further, ACJKEL has limited room to raise any additional debt to meet its financial exigencies due to its highly leveraged capital structure. However, the Company is expected to generate just about adequate cash accruals as against its repayment obligations over the medium term.

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About the Company

Established in 1969 by Suri family, ACJK was initially constituted as a proprietorship concern 'M/s Amir Chand Jagdish Kumar'. Thereafter, the promoters moved to Delhi, in 1988 and set up a partnership concern which was subsequently converted into a proprietorship entity and then gradually into a Limited Company - Amir Chand Jagdish Kumar Exports Limited (ACJKEL) in August, 2003. The Company is engaged in milling and processing of rice and has set up rice milling facilities in Punjab, Haryana and Delhi. ACJKEL is a two star trading house recognized by the Government of India and is one of the leading exporter of basmati and non-basmati rice based in North India. Over the years of its presence the company has developed various brands in the market; Aeroplane, World Cup, Alibaba, Palm Tree, Sophia, and Jet.

Financials (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	1287.22	1487.99
EBITDA	76.30	110.40
PAT	16.92	13.02
Total Debt	670.45	658.97
Tangible Net worth	218.76	233.45
EBITDA Margin (%)	5.93	7.42
PAT Margin (%)	1.31	0.87
Overall Gearing Ratio (x)	3.06	2.82

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

Brickwork Rating has moved the company into Issuer not Cooperating Category (Oct 22, 2019) as the company did not submit the requisite information to them.

ACUITE has moved the company into Issuer not Cooperating Category (Nov 17, 2018) as the company did not submit the requisite information to them.

Any other information: Mr. Bhupinder Nayyar who is a member of Rating Committee is also on the Board of Amir Chand Jagdish Kumar Exports Limited. However, Mr. Nayyar did not participate in the entire rating exercise, including the rating decision.

Rating History for last three years:

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	60.00	IVR A-/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	2.10	IVR A-/Stable	-	-	-
3.	Long Term Fund Based Limits – ECB	Long Term	7.17	IVR A-/Stable	-	-	-
4.	Short Term Fund Based Limits- PC/PCFC	Short Term	455.00	IVR A2+	-	-	-
5.	Short Term Fund Based Limits- FBP	Short Term	100.00	IVR A2+	-	-	-
6.	Short Term Fund Based Limits- Standby Export Limit	Short Term	110.00	IVR A2+	-	-	-
7.	Short Term Non Fund Based Limits- Bank Guarantee	Short Term	90.00	IVR A2+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms.Aakriti Sachdeva

Tel: (011) 2465 5636

Email: asachdeva@infomerics.com

Name: Mr.Avik Poddar

Tel: (033) 46022266

Email: apodder@infomerics.com

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	60.00	IVR A-/Stable
Long Term Bank Facilities- Term Loan	-	1Y MCLR+1.55%	Feb 2025	2.10	IVR A-/Stable
Long Term Bank Facilities- ECB	-	6M LIBOR + 350bps	Sep 2021	7.17	IVR A-/Stable
Short Term Bank Facilities – PC/PCFC	-	-	-	455.00	IVR A2+
Short Term Bank Facilities – FBP	-	-	-	100.00	IVR A2+
Short Term Bank Facilities – Standby	-	-	-	110.00	IVR A2+

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Export Limit					
Short Term Bank Facilities – Bank Guarantee	-	-	-	90.00	IVR A2+