Rating Rationale for Amazan Capital Limited's proposed secured structured Non Convertible Debenture (NCD) Issue of INR 25 crores

NCD Issue Rating: BWR A-(SO)	Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR A-(SO) (Pronounced BWR A Minus (Structured Obligation)) Rating for **Amazan Capital Ltd.'s** proposed ₹ 25 crores secured NCD issue. Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating has factored, inter alia, Amazan Group's well qualified top management and the structure of the proposed secured NCD issue. The rating is however constrained by the limited track record of Amazan Group's operations and especially that of Amazan Capital, highly competitive nature of the industry, attendant risks in dealing in agricultural commodities and the inter-dependencies inherent in the business model and risks arising there from.

Industry Analysis

The edible oil market has seen increasing penetration of branded products with the branded segment poised to grow at an estimated CAGR of 25%. Of this, soybean and mustard oils lead the branded oils, while palm oil, which is still the most consumed oil in India, is dominated by the unbranded segment. Branded mustard oil sales is estimated to be around 30% of the total mustard oil sales in India in FY11. Most of the mustard oil sales are in East India (around 70%).

Branded parboiled rice sales and branded egg sales are still low / insignificant in India; this is expected to change with increasing customer focus on quality.

The industry is highly competitive in nature with certain regional players cornering the market in a few geographies; however considering the nature of business, players who can employ economies of scale will prove to be the most successful. Inventory management and cost of procurement of raw materials play a vital role in the profitability of the industry (average NPM is around 2 to 2.5%). The cost of the product sold at the market still plays a large role in the mind of the customer; whilst brand consciousness is increasing, the maximum retail price (MRP) is still expected to play a dominant role.

Amazan Group:

The Amazan Group was established in 2003 by Mr. Joydeb Garai and comprises of 2 companies – Amazan Agro Products Ltd (AAPL) and Amazan Capital Ltd (ACL).

AAPL is engaged in supply chain management of agricultural and food products. Initially the company was only engaged in trading, and in 2006 they began importing and exporting some products. However, from 2008 onwards they began moving up the value chain to engage in processing and branding of agri-commodities.

Amazan Capital is an NBFC that was formed when the Amazan Group took over Thirdwave Securities Pvt. Ltd., in June 2010. ACL's primary aim is to function as the financing arm of AAPL; it will also serve as a financial intermediary for the vendors and customers of AAPL.

AAPL's product portfolio currently includes Edible Oil, Eggs and Grains and Cereals. The company is engaged in trading and sourcing of crude as well as refined mustard oil. In November 2010, it launched its own brand of premium kachi ghani mustard oil called "Pureline". As at 31st March 2011, trading accounted for as much as ~ 22% of its sales, while sourcing accounted for 78%. However, this proportion is expected to change as AAPL focuses on the higher margin branded oil business and extends the geographical spread of its market from Greater Kolkata to include other regions of West Bengal, Jharkhand, Orissa, Bihar and Assam. The company plans to launch Soya oil in Kolkata by August 2011.

Amazan Agro entered the nascent and fast-growing branded eggs market in Eastern India in April 2010, with its 'Megga' brand, and currently covers the state of West Bengal. Its product offering includes Megga White, Megga Brown and Megga Vitrich eggs. The company plans to introduce more varieties of value added eggs as well as expand geographically to other states.

AAPL is present in the branded and unbranded segments of the rice business. While it entered this market in September 2010, its branded rice 'Annabhog' was launched in January 2011. Paddy procured in Burdwan, Hoogly, Howrah and Medinipore districts is processed and graded at contracted mills, primarily in Burdwan The company offers rice under the 'Popular' and 'Premium' varieties. In future, the company will focus more on the higher margin branded rice segment.

Management Profile:

The Amazan Group is closely held with Mr. Joydeb Garai, Mr. Basudeb Garai and Ms. Gargi Biswas holding the majority of shares.

Mr. Joydeb Garai is the MD and CEO. He holds a Master's degree in Statistics, M.Tech in Technology and a Doctorate in Operations Management. Before starting AAPL, he held senior positions with companies such as Tata Chemicals and Pricewaterhouse Coopers.

Ms. Gargi Biswas, Director, holds an Honors degree in Economics and an MBA. She brings with her experience in Forex & Corporate Finance Transactions.

Mr. Basudeb Garai, Director, holds a Master's degree in Economics and PG Diploma in Packaging Technology. He has had considerable experience at BG Enterprises, an Agri commodity and supply chain business.

NCD Issue:

The Amazan Group plans to use the Warehouse Receipts route to fund the working capital needs of AAPL on a long term basis. The fund raising will be executed through Amazan Capital which will issue NCDs worth ₹ 25 crores and then make the funds available to AAPL. The debentures will have a tenure of 7 years and be secured by the inventory and receivables of AAPL. Both AAPL and ACL will execute legally enforceable documents to secure the proposed NCD issue.

Funds raised by ACL will be placed in an Escrow account created under a tripartite agreement between ACL, AAPL and the Escrow Bank. Amazan Capital will invest some of these funds in AAA / AA rated PSU or corporate bonds in compliance with RBI regulations, while the balance will be invested in AAPL's operations. Upon receipt of a purchase mandate from AAPL, the funds will be used to make payment directly to the sellers (farmers). The commodities so procured (mustard seeds and paddy), will be stored at National Collateral Management Services Ltd. (NCMSL) warehouses at Jaipur / Kota, after being checked for quality and volumes by NCMSL. A Warehouse Receipt will then be issued by NCMSL in favour of Amazan Capital, which in turn, will be hypothecated in favour of the Debenture Trustee and registered with the Registrar of Companies, Kolkata.

In order to withdraw raw material for processing and distribution, AAPL would have to first issue a Post Dated Cheque (PDC) for an amount equal to the value of goods being released from the warehouses. Collections from the sale of final products would be paid directly into the escrow account by distributors/retailers (who will be required to have a current account with the Escrow Banker for this purpose). AAPL will thus use a combination of physical inventory and PDCs to ensure that a security cover with a floor of 1 time and a cap of 1.25 times is maintained at all times. Any funds in the escrow account, pending deployment for purchases will be invested in top rated money market mutual funds to earn additional returns.

Funds in the escrow account will be used to service NCD dues. Any shortfall in funds available for interest and principal payments will be made good by AAPL under a "Shortfall Guarantee Agreement" between the Debenture Trustee, Amazan Capital, Amazan Agro and the Escrow Banker.

Key financial information:

The key financials considered during the rating process were of Amazon Agro Ltd. as the repayment of the NCD is from cash flows rising out of operations of Amazon Agro.

The company saw its business expand in 2010-11 when it commenced its retail operations. As per unaudited financials, it achieved sales of ₹166 Cr and a net profit of ₹1.31 Cr. Net Profit Margin was at 0.87%. Total sales include sales of both branded and non-branded products, with the branded oil segment contributing to around 33% of the total sales.

The cost of raw materials purchased currently contributes to around 95% of the total expenses incurred by AAPL. Employee costs as a percentage of sales were 1.04% and Interest and financial charges were 0.61%. Inventory Turnover stood at a satisfactory 86 times. The current ratio of AAPL is 1.55 and is considered to be adequate considering the industry that it is operating in.

Currently AAPL does not have any long term debt on its books. In FY12 Brickwork Ratings expects slight stress in the debt repayment capacity of AAPL with the issuance of NCDs and expects the debt equity levels to be around 1.5 by 2012. Improvement is expected as operations in new product lines stabilize and branded products form a greater portion of their sales.

The financials of AAPL and ACL have been annexed in this document; however, considering the limited time of operations (less than one year) of ACL as well as its dependence on AAPL for cash flows and the structure of the NCD, the rating sensitivity of AAPL plays the main role in the rating process.

Key rating sensitivities include the raw material costs, debt service coverage ratios as well as the inventory management for AAPL. Brickwork Ratings expects AAPL to infuse additional equity of about Rs.10 crores by October 2011, and augment its resources; and inability to do so may influence the rating assigned by Brickwork Ratings to this NCD.

Analysts	**Media**
Rajalakshmi R , Lead Analyst rajalakshmi.r@brickworkratings.com **Mridula Chordia,** Co-Analyst mridula.c@brickworkratings.com	**Anitha G** media@brickworkratings.com **Relationship Contact** **K N Suvarna** **Senior VP – Business Development** kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

Annexure:

Key Financials

Table 1: Amazan Agro Products Limited

Abridged Balance Sheet **(in ₹ Cr)**

	31.03.10	31.03.2011 (Unaudited)
SOURCES OF FUND:		
Shareholders Fund		
Share Capital	0.41	3.51
Reserve & Surplus	**2.52**	**3.25**
Loan Fund	0.30	0.00
TOTAL	**3.23**	**6.76**
APPLICATION OF FUND:		
Fixed Assets : Net Block	**0.72**	**1.01**
INVESTMENT	0.00	0.30
Current Assets, Loans and Advances :		
Inventories	0.50	11.76
Sundry Debtors	0.00	0.19
Loans and Advances	0.58	2.07
Cash and Bank Balances	1.51	-0.30
Other Current Assets	0.00	0.08
Total Current Assets	**2.59**	**13.80**
Less: Current Liabilities and Provisions	**0.81**	**8.88**
Net Current Assets	**1.78**	**4.92**
TOTAL	**3.23**	**6.76**

Source: Company Data

Table 2: Amazan Agro Products Limited

Abridged Income Statement (in ₹ Cr)

	31.03.2010	31.03.3011 (Unaudited)
INCOME		
Income from Operations	41.94	166.08
EXPENDITURE		
Increase / (Decrease) in stock in Trade	0.00	0.00
Consumption of Raw Materials	39.54	156.69
Employee Cost	0.67	1.72
Other Expenditure	1.11	4.46
Total Expenditure	**41.32**	**162.87**
EBITDA	**0.62**	**3.21**
Depreciation	0.03	0.14
EBIT	**0.59**	**3.07**
Interest and Financial Charges	0.06	1.02
EBT	**0.53**	**2.05**
Other income	0.00	0.06
Tax	0.17	0.80
Profit After Tax	**0.36**	**1.31**

Source: Company Data

Table 3: Amazan Agro Products Limited: Key Ratios

	FY10	FY11
Debt/ Equity ratio (x)	0.13	0.00
Interest cover (x)	10.33	2.53
DSCR (x)	0.05	1.65
Net worth	2.35	6.23
NPM (%)	0.85%	0.79%
RoCE (%)	35.69%	69.00%
Cash accrual to total debt (x)	1.29	NM
Current Ratio (x)	3.20	1.55

NM – Not meaningful

Table 4: Amazan Capital Limited

Abridged Balance Sheet **(in ₹ Cr)**

	31.03.2011 (Unaudited)
SOURCES OF FUND	
Shareholders Fund	
Share Capital	1.68
Reserve & Surplus	7.95
Total	**9.64**
APPLICATION OF FUND	
Fixed Assets: Net Block	**0.53**
Investment	2.81
Current Assets, Loans and Advances:	
Cash and Bank Balances	0.30
Other Current Assets	6.34
	6.64
Less: Current Liabilities and Provisions	**0.35**
Net Current Assets	**6.29**
Total	**9.64**

Table 5: Amazan Capital Limited

Abridged Income Statement **(in ₹ Cr)**

	31.03.2011 (Unaudited)
Operating Income	1.11
Total Expenditure	0.50
EBITDA	**0.61**
Less: Depreciation	0.01
EBIT	**0.60**
Interest and Financial Charges	0.01
EBT	**0.59**
Tax Expenses	0.25
PAT	**0.35**