

RATING RATIONALE

5 Aug 2020

Amir Chand Jagdish Kumar (Exports) Ltd.

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs. 824.15 Crs. of Amir Chand Jagdish Kumar (Exports) Ltd.

Particulars

Facility	Previously Rated Amount (Rs. in Crs)	Amount Rated** (Rs in Crs)	Tenure	Previous Rating (Oct 2019)	Rating Assigned*
Fund Based	109.03	149.15	Long Term	BWR BBB-Stable (Issuer not Cooperating)	BWR BBB+ Stable (Upgrade)
	630.00	585.00	Short Term	BWR A3 (Issuer Not Cooperating)	BWR A2+ (Upgrade)
Non-Fund Based	100.00	90.00			
Total	839.03	824.15	INR Eight Hundred Twenty-Four Crores and Fifteen Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Detail of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has upgraded the ratings to BWR BBB+/A2+ with a Stable outlook.

The upgradation in the rating is on account of the company's cooperating in providing information for review of the rating. The ratings also positively factors in the extensive experience of promoters in the business, operational track record of the company, established brand name 'Aeroplane', diversified customer base in the domestic market, efficient receivable management, secured payment mechanism for exports and established risk management policies.

However, the rating is constrained on account of high working capital intensive nature of business, exposure to adverse climatic conditions, increased geographic concentration in the foreign markets, adverse impact of Covid on labour intensive businesses and high competition present in the industry.

The outlook is Stable as the company has more than Rs. 600.00 Crs of export orders as at June end 2020 and low fixed outlay in the form of principal repayment backed by comfortable cash accruals projected in the coming years

KEY RATING DRIVERS

Credit Strengths:

- **Extensive promoters experience and established brand name:** Promoters of the company are into the business for more than 4 decades and understand the industry very well. The Company has seen multiple business cycles within the industry. Over the period the company has established its brand name as well. Around 70% of the total sales is under its own brand name 'Aeroplane' which is a well-known brand in the northern markets.
- **Stable financial performance of the Company:** - Though there has been some decline in the top line during FY20 on account of sudden implementation of nation-wide lockdown and sample testing related issues with Saudi Arabian authorities which were resolved later, the company has reported a decent topline of Rs. 1219.05 Crs during FY20 (provisional) with a PAT of Rs. 12.26 Crs. Net margin for the company improved marginally on account of lower finance expense and higher non-operating income during the last fiscal.
- During Q1FY21, the company has already achieved a sale of more than Rs. 200 Crs and has export orders in hand of more than 600 Crs for FY21. Top line of the company is expected to get impacted during FY21 on account of lack of labour and logistics infra availability due to the ongoing scenario. Overall, the company is expected to generate comfortable cash accruals to meet the fixed outlay.
- **Efficient receivable management:** - Since exports on an average contribute more than 50% of the overall topline, the company avoids taking excessive risk to boost the sales. Majority of the sales to foreign markets are backed either by LC or by advance payments. The company also ensures the capability of the LC issuing bank and political stability of the country while procuring export orders. In the domestic market also, the company has set credit policies to manage receivables and working capital. During FY20, sharp rise in receivables and payables was on account of the lockdown implemented at the year-end FY20 which impacted the banking channels as well. As informed by the management, both creditors and debtors have declined gradually and are now at pre lockdown levels.

Credit Risks:

- **Working capital intensive nature of the business:** - By nature of the business, basmati rice is a working capital-intensive industry. Being an agro commodity, the procurement of paddy is seasonal and happens during the months of October-December which increases the working capital requirement. Also, in order to improve the quality of the rice and attract premium pricing, basmati requires ageing. ACJKEL holds the finished goods inventory at least for a period of six months and thus, at any given point of time, it holds an inventory worth of Rs. 500 – 600 Crs which consumes most of the working capital available with the company.

- **Below average debt protection metrics and high leverage levels:** - Though there has been some improvement during FY20, debt protection metrics remained below average. ISCR for the company improved marginally from 1.31x during FY19 to 1.48x during FY20. TOL/TNW for the company remained high at 3.57x as on 31st March 2020. The payment risk is partially mitigated by efficient receivable management by the Company.
- **Increased geographic concentration in the foreign markets:** - During the last year majority of the export sale was contributed by Saudi Arabia followed by Iran as against a diversified export profile during FY18. Existing order book also has the majority of the orders from Saudi Arabia which increases the geographic concentration risk for the Company.
- **Exposure to other industry related issues:** - Rice being an agro commodity is exposed to adverse climatic conditions which may impact the availability as well as quality of rice. This along with global demand lends significant volatility to the paddy prices. In the ongoing scenario, price realization for basmati rice has been stable. Any adverse movement in the paddy prices may lead to inventory losses. However, since a considerable part of the company's revenue is in the form of branded sales which attracts premium pricing, ACJKEL is expected to manage volatility in the raw material prices to a certain extent. The industry is also exposed to any changes in the import policies of key basmati rice importers and may have an adverse impact on the overall demand leading to fall in global prices and realizations of the exporting entities.
- **Adverse impact of Covid 19:** - Covid – 19 Pandemic has put forth various challenges for labour intensive industries as well. Lack of availability of labour and logistics infra at ports in all the domestic as well as foreign markets has impacted the operations of the companies. Since the markets are still struggling to overcome the impacts of Covid – 19, this is expected to have a negative impact on the current year sales as well.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the Company to contain the impact of Covid -19 and sustained improvement in profitability margins from the current level will be a key rating sensitivity. Improvement in debt protection metrics will be a key monitorable.

Positive: The rating outlook may be revised to Positive in case the Company reports better than expected topline number coupled with sustained improvement in profitability margins as well. ISCR above 3x will be a positive for the company.

Negative: The rating outlook may be revised to Negative in case the Company fails to meet the expected topline numbers with continued stress on the profitability margins. Further weakness in the debt protection metrics can trigger a rating action for the company.

LIQUIDITY POSITION (Adequate)

The company has low fixed outlay in the coming years since total long-term loans as on 31st March 2020 stood at Rs. 9.15 Crs majority of which has to be repaid over two to three years timeline. The company has been generating cash accruals of more than Rs. 20 Crs during the past four years under consideration. Some decline in cash accruals is expected this year but the Company is expected to generate enough cash accruals to meet the fixed outlay comfortably. Working capital utilization of the company stood high at ~90% during the last one year owing to high levels of inventory the Company has to maintain as part of business strategy.

COMPANY PROFILE

Amir Chand Jagdish Kumar (Exports) Ltd (ACJKEL) was incorporated in 2003 at New Delhi after taking over the business of M/s Amir Chand Jagdish Kumar (a 25 year old partnership concern). An ISO 9001:2000 company, ACJEKL was promoted by Mr. J.K. Suri and his son Mr. Rahul Suri. The company is engaged in the milling, processing and export of basmati rice. ACJKEL sells its products under its own brand “Aeroplane” as well as under private labels for some of its international customers. The company procures paddy from local mandis through commission agents mainly from Punjab and Haryana. It has three processing units located at Amritsar (Punjab), Safidon (Haryana) and Delhi. Combining all the three plants, ACJKEL has a capacity to process 425313 MT of rice.

In the domestic market, the products are sold through a network of more than 500 distributors. In the international market, the products are sold through commission agents. The company exports to both Government as well as Private Entities.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Total Operating Income	Rs. in Crs	1287.17	1487.83
OPBDIT	Rs. in Crs	76.26	110.25
PAT	Rs. in Crs	16.92	13.02
Tangible Net Worth	Rs. in Crs	211.48	225.91
TOL/TNW	Times	3.48	3.41
Current Ratio	Times	1.20	1.25

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

RATING HISTORY FOR LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Nature of Instrument	Facilities Availed	Current Rating (2020)			(Rs. Crores)								
		Tenure	Amount (In Crs)	Rating	2019			2018			2017		
Bank Loan Facility	Fund Based	Long Term	149.15	BWR BBB+ (Stable) [Upgrade]	22 Oct 2019			8 Oct 2018			18 July 2017		
					FB	109.03	BWR BBB- (Stable) Issuer Not Cooperating (Downgrade)	FB	109.03	BWR A- (Stable) (Upgrade)	FB	110.05	BWR BBB+ (Stable) (Upgrade)
	Short Term	585.00	BWR A2+ [Upgrade]										
FB				630.00	BWR A3 Issuer Not cooperating (Downgrade)	FB	630.00	BWR A2+ (Upgrade)	FB	630.00	BWR A2 (Upgrade)		
	Non-Fund Based		90.00	BWR A2+ [Upgrade]									
					NFB	100.00	BWR A3 Issuer Not Cooperating (Downgrade)	NFB	100.00	BWR A2+ (Upgrade)	NFB	70.00	BWR A2 (Upgrade)
Total			824.15		INR Eight hundred Twenty-Four Crores and Fifteen Lakhs Only								

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)
- [Short Term Debt](#)

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Amir Chand Jagdish Kumar (Exports) Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Bank of India	Cash Credit	100.00	-	100.00
2		PCL	-	310.00	310.00
3		FBP/FBN	-	50.00	50.00
4		LC	-	50.00	50.00
5		ECB/TL	9.15	-	9.15
6	Union Bank of India	Cash Credit	40.00	-	40.00
7		PCL	-	210.00	210.00
8		FBP/FBN	-	15.00	15.00
9		LC	-	40.00	40.00
TOTAL					824.15

INR Eight Hundred Twenty-Four Crores and Fifteen Lakhs Only



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