

RATING RATIONALE

23 Dec 2019

Amitara Overseas Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹. 44.70 Crores of Amitara Overseas Limited (AOL or the ‘Company’)

Particulars

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2019)	Present
Fund based	57.61	40.95	Long Term	BWR BBB+(CE) (Stable)	BWR BBB+(CE) (Stable) Reaffirm
Non Fund Based	3.75	3.75	Short Term	BWR A2 (CE)	BWR A2 (CE) Reaffirm
Total	61.36	44.70	INR Forty Four Crores and Seventy Lakhs Only		

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

** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

CE refers to credit enhancement derived from the corporate guarantee of Jindal Worldwide Ltd.(JWL or the Company), [JWL - currently rated BWR AA-/A1+ (Stable)]; hence, operating and financial performance of JWL and its continued support, are key rating sensitivities.

RATING ACTION / OUTLOOK

The rating reflects AOL being promoted by JWL; the flagship Company of Jindal Group, experience of promoters/management in the textile industry, corporate guarantee provided by JWL, the Jindal Group’s year-on-year growth in revenue and effective increase in capacity due to work-contracts with units set up in a textile park approved by the Government of Gujarat along with adequate financial position of JWL. The ratings, however, are constrained by credit risk faced by AOL due to 100% linkage with JWL, decline in profitability of JWL due to high raw material prices which cannot be fully passed on, adverse and sluggish conditions in the textile industry as well as increasing capacity additions being created by the Denim manufacturing industry in the State of Gujarat, which could affect margins.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that AOL’s business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity

profile. The outlook may be revised to Negative if the Company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position.

KEY RATING DRIVERS

Credit Strengths:

- **Experience of promoters/management in the textile industry:** JWL Group is promoted and managed by Agrawal family. Dr. Yamunadutt Agrawal is the founder and Chairman of the Board and has more than four decades of experience. Mr. Amit Agrawal the Managing Director; there are two other promoter directors looking after key management functions. Other board members include Mr. Vikram Oza, Director Finance.
- **Corporate Guarantee from Jindal Worldwide Limited (JWL):** The bank facilities are backed by an unconditional and irrevocable corporate guarantee of Jindal Worldwide Limited (currently rated BWR AA-/A1+, Stable) along with the T-7 structure, whereby if the funding does not happen 7 days before any payment due date, the lender can seek payment from the guarantor.
- **JWL's year on year growth in revenue:** Despite sluggish market conditions and intense competition in the textile industry, JWL has efficiently managed to increase its turnover on a year on year basis. Company has achieved the projected turnover with Y-O-Y growth of 28.62 % in Total Operating income in FY19. Further, the Company has achieved Rs 1084.67 Crs in H1FY20 against Rs 1040.70 Crs in H1FY19.
- **Adequate Financial Profile of JWL:** Even though the margins have reduced, profitability of the Company is sufficient to meet the debt repayment obligations of Rs. 47.69 Crs. . The debt protection metrics remained adequate, and the Net cash accruals/total debt is satisfactory at 0.16 times in FY19.

Credit Risks:

- **Linkage with JWL Group:** AOL is doing 100 % job work for Jindal Worldwide Ltd or other group companies. Hence, the business and credit risk profile of JWL Group of companies will impact the credit risk of AOL.
- **Inherent risks associated with industry and competition from presence of established players:** Textiles industry has inherent risk considering over production capacity being created in the industry by peer groups which may lead to supply demand mismatches, increased competition, and lowering of profit margins.
- **Fall in profitability:** JWL has witnessed a significant decline in profit margins from 3.55% in FY18 to 1.25% in FY19, mainly due to weakening demand and high raw material prices. The pressure is primarily originating from high cotton prices in the domestic market which is expected to worsen due to probable increase in import of cotton as a result of weather infeasibility.
- **Volatility in raw material prices:** The margins of the Company remain exposed to fluctuations in raw material prices, viz., cotton. Cotton prices could go up if export market picks up, thus putting pressure on margins. Variation in input costs cannot always be passed on immediately, but with a lag.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has reviewed AOL along with Corporate Guarantee provided by JWL. The above ratings address the servicing of the bank facilities to happen as per the terms of the underlying loan and the guarantee arrangement, and the rating assumes that the guarantee will be duly invoked, as per the



terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, if JWL Group is able to improve its net cash accruals/total debt above 0.20 times, increase profit margins to at least 5%, coupled with consistent growth in its turnover levels y-o-y and simultaneously bringing down its gearing ratio to below 1x over the medium term.

Negative: BWR may revise the ratings downwards, if JWL Group's current ratio further deteriorates below 1.5 times and profitability levels decline further over the medium term.

LIQUIDITY POSITION

Liquidity position of AOL is adequate reflected by average debt protection metrics with an ISCR at 2.98 times and DSCR at 2.08 times in FY19. Net cash accruals/total debt is sufficient at 0.37 times as on 31st March 2019.

Further, JWL's liquidity also remained adequate during the year reflected by sufficient cash accrual of Rs 67.01 Crs against current portion of debt obligations of Rs 47.69 Crs in FY19.

ABOUT THE GUARANTOR - JWL

JWL Jindal Worldwide Limited (JWL), promoted by Dr. Yamunadutt Agrawal, was incorporated in 1986. It is a BSE and NSE listed Company and has its manufacturing facilities situated in Ahmedabad. JWL's product profile comprises of Denim Fabric, Yarn Dyed shirting and bottom width, as well as export centric home furnishing items. JWL has an installed capacity for Denim manufacturing of 100 million meters p.a., 35 million meters p.a. capacity for dyeing and bleaching of fabric and 1 million sets p.a of home furnishing items. The Company also has www.brickworkratings.com Page 3 of 6 spinning capacity of 45 tons per day. JWL has captive power plant of 4.5 MW. As earlier indicated, JWL also benefits from the additional weaving capacity created in their Textile Park

ABOUT THE ISSUER- AOL

AOL belongs to Jindal Group, which is a well known name in Textile Industry having Spinning, Weaving, Processing and even stitching facilities at their Narol & Vatva locations. AOL is engaged in manufacturing and weaving of yarn, mainly doing job work for Jindal Worldwide Limited a flagship company of Jindal Group.

KEY FINANCIAL INDICATORS (in INR Crs)

FINANCIAL INDICATORS - ISSUER

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Total Operating Income	Rs in Crs	273.09	155.14
EBITDA	Rs in Crs	19.92	14.89
PAT	Rs in Crs	1.63	0.45
Tangible Net worth	Rs in Crs	51.78	49.77
Total Debt/TNW	Times	1.09	0.98
Current Ratio	Times	1.11	1.21

FINANCIAL INDICATORS – CREDIT ENHANCEMENT PROVIDER

Key Parameters	Units	Standalone		Consolidated	
		FY19	FY18	FY19	FY18
Result Type		Audited	Audited	Audited	Audited
Total Operating Income	Rs in Crs	2113.62	1643.21	2211.98	1649.85
EBITDA	Rs in Crs	129.38	180.29	199.30	184.34
PAT	Rs in Crs	26.39	58.33	30.68	58.68
Tangible Net worth	Rs in Crs	345.61	320.35	349.66	325.99
Total Debt/TNW	Times	1.25	1.47	1.64	1.59
Current Ratio	Times	1.31	1.38	1.73	1.33

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction for the bank loan facilities include standard covenants normally stipulated for such facilities. Repayment of term loan commenced from Q4FY17. Further, as per the sanction letter, corporate guarantee has been extended by M/s Jindal Worldwide Limited (Holding Company). Credit enhancement for AOL has been derived from the corporate guarantee of Jindal Worldwide Limited. Additionally, personal guarantee is provided by Dr. Yamunadutt Agarwal (Group Chairman), Mr. Amit Agarwal (Director) and Mr. Satish Khetan (Director).

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Instrument	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	Sept 2019	June 2018	April 2017
Fund Based	Long Term	40.95	BWR BBB+(CE) (Stable) Reaffirm	BWR BBB+(CE) (Stable)	BWR BBB+(SO) (Stable)	BWR BBB+(SO) (Stable)
Non Fund Based	Short Term	3.75	BWR A2 (CE) Reaffirm	BWR A2 (CE)	BWR A2 (SO)	BWR A2 (SO)
		44.70				

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

Analytical Contacts	Investor and Media Relations
<p>Kalgi Mehta Ratings Analyst B :+91 79 66174046 / 47 kalgi.m@brickworkratings.com</p> <p>Vidya Shankar Senior Director - Ratings B :+91 80 4040 9940 vidyashankar@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

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.	Karur Vysya Bank Ltd	OCC	10.00	0.00	10.00
		Term Loan*	30.95	0.00	30.95
		Bank Guarantee/Letter of Credit	3.75	3.75	3.75
TOTAL					44.70

Total Rupees Forty Four Crores and Seventy Lakhs only.

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings :Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons