Rating Rationale

Amrit Exports Pvt Ltd

11Jul2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 50.85 Crores of Amrit Exports Pvt Ltd. The outlook is revised to Positive.

Particulars

<table>
<tr><th rowspan="2">Facility</th><th colspan="2">Amount (₹ Crs)</th><th rowspan="2">Tenure</th><th colspan="2">Ratings*</th></tr>
<tr><th>Previous</th><th>Present</th><th>Previous (Jul,2018)</th><th>Present</th></tr>
<tr><td>Fund based: Term Loan</td><td>3.67</td><td>7.85</td><td>Long Term</td><td>BWR BB
(BWR Double B)
(Outlook: Stable)</td><td>BWR BB
(BWR Double B)
(Outlook: Positive)
(Revision in Outlook)</td></tr>
<tr><td>Fund based:
Packing Credit Limit / Packing in Foreign Currency Limit</td><td>18.25</td><td>21.75</td><td rowspan="5">Short Term</td><td rowspan="5">BWR A4
(BWR A Four)</td><td rowspan="5">BWR A4
(BWR A Four)
(Reaffirmed)</td></tr>
<tr><td>Fund based:
Foreign Bills Purchased/ Foreign Bills Negotiation</td><td>14.00</td><td>16.00</td></tr>
<tr><td>Fund based: Overdraft against Export Receivables</td><td>1.00</td><td>1.50</td></tr>
<tr><td>Non Fund Based:
Bank Guarantee</td><td>0.75</td><td>0.75</td></tr>
<tr><td>Non Fund Based:
Letter of Credit</td><td>3.00</td><td>3.00</td></tr>
<tr><td>Total</td><td>40.67</td><td>50.85</td><td colspan="3">(INR Fifty Crores Eighty Five Lakhs Only)</td></tr>
</table>

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

Rating: Reaffirmed

Brickwork Ratings have reaffirmed the ratings for the Bank Loan Facilities of ₹. 50.85 Crores (enhanced from Rs.40.67 Crores) of Amrit Exports Pvt Ltd, Kolkata. The Outlook is revised to Positive.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18 and provisional financials of FY19 and estimates for FY20 of Amrit Exports Private Limited, information /clarifications provided by the Company's management and publicly available information.

The rating reaffirmation reflects Amrit Exports Pvt Ltd.'s moderate scale of operations with flattish revenues as per FY19 (Provisional), stretched liquidity profile, high operating cycle, low bargaining power with large foreign clientele, high competition and risk associated with the availability of alternative sources of raw material. The ratings however derives strength from the change in product mix from low to high value products, geographic expansion, the recent CAPEX in the high margin business segment, reduction in interest rates on bank loans, increase in profitability and the Net worth as per FY19 (Provisional). The rating continues to benefit from the promoters' experience in the textile industry, synergies with its group concerns, moderate debt protection indicator and gearing, diversified product portfolio and clientele base. The revision in outlook to '**Positive'** factors in the company's initiative to change its product mix resulting in improved operating profit margins for FY19.

Description of Key Rating Drivers

Credit Risks:

- *Scale of Operations*: On a year-over-year basis, total revenues remained flat at Rs.60.14 Cr as per provisional FY19 (FY18: Rs.60.22 Crs).
- *High levels of inventory:* The Company maintains high inventories due to its export oriented business and has been 200 days over the last four years. Going forward, these can be neutralised in line with the order book size so as to reduce the overheads
- *Competition*: The Company is exposed to risk of business from competitors based in the Eurpean and US markets, apart from manufacturers located in China and Bangladesh.
- *Bargaining Power:* With high levels of competition and maintaining its large clientele impacts with low bargaining power.
- *Raw Material sourcing and forex risk:* The ability of the Company to access alternative sources of raw material, in case of any policy changes in the international market may adversely impact the business cycle. The Company's profitability margins are susceptible to foreign exchange rate fluctuations and needs to be adequately covered through prudent hedging practice.

Credit Strengths:

- *Change in Product Mix:* The Company's increased focus on knitted garments has assisted in increase its profitability during FY19 and is expected to yield better results going forward.The proportion of revenues from Knitted garments has increased to 42% in FY19 from 27% in FY17 and that of Woven products is 58% in FY19.

- *Geographic Expansions*: In FY19 AEPL expanded operations in the US markets and sold more of niche products and generated nearly 42% of total revenues(FY18:4.5%). AEPL expects the proportion of revenues from US to go up further in FY20 anticipating higher orders from the region. As on July 08, 2018, the Company has an order book position of Rs.48.77 Crs to be completed by December 2019, proportionately from US and European markets. Going forward, the incremental sales are expected from the US markets.
- *CAPEX*: AEPL has enhanced its knitting capacities by installing circular knitting machines during FY19 and expects further expansion in FY20. This will improve its topline as well as profitability.
- *Profitability Margins:* The profit margins of the Company both operating and net profit margins improved in FY19 y-o-y. The Company managed to reduce its raw material procuring costs that led to an expansion in EBITDA margins while a 50 basis point reduction in interest rates on working capital loans by the lender resulted in the increase in Net profit margins.
- *Net worth and Moderate Protection Metrics*: Net worth improved to Rs.21.21 Crs as per FY19 (Provisional) with infusion of funds by the promoters and retention of net profits. It has total gearing of 1.54x, interest coverage ratio of 2.05x and debt coverage ratio of 1.79x for FY19.

Key rating Sensitivities

As per FY19 provisionals, the Company has around 10% operating profit margins. With the expansion in capacities and increment in its high yielding portfolio, the operating profit margins are expected to remain above this level. Going forward from FY20 onwards, maintaining the operating profit margin over 10% and ISCR above 2x, while improving or at least maintaining the other financial parameters as of FY19 shall be one of the key rating sensitivities Reducing the working capital cycle below three months shall be the other key rating sensitivity.

Liquidity

The company's net cash accruals to total debt are at very low levels 0.02x as of FY18 and estimated to improve going forward. The Company's cash flow from operations is Rs.0.94 Cr as of FY18. However, the company has liquid investments in gold bonds and shares amounting to Rs.4.33 Crs as of FY18. During FY19, the average utilization of bank limits is at 75% with non funded facility utilisation at 30%, providing adequate undrawn limits to meet the exigencies.

Analytical Approach

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

Rating Outlook: *Positive*

BWR believes the **Amrit Exports Pvt Ltd** business risk profile will be maintained over the medium term. The revision in outlook to '**Positive**' factors in the company's initiative to change its product mix enable cost control measures and yield higher operating profit margins for FY19. The Outlook may be revised to Stable, in case the company is unable to increase its revenues and maintain its growth in profitability margins. Any significant fall in deterioration in key financial parameters of the Company may result in revision of Outlook to Negative.

About the Company

Incorporated in 1996, Amrit Exports Pvt Ltd, a private limited Company, is the flagship Company of the Amrit Group. It is a manufacturer and exporter of industrial garments & safety wear. The Company's office located at Salt Lake, Kolkata-91. The manufacturing facility is located at Madhyamgram, Near Kolkata Airport, West Bengal.

The Company is a Government of India recognized export house & an ISO 9001:2015, ISO 14001:2015 & SA 8000:2014 certified Company. It also has ISO 9001: 2008 certification by DNV Netherlands. AEPL has been exporting its products to different European countries & Government departments including Swiss Army (Armasuisse i.e. Department of Civil & Military defense, Switzerland), Swiss Military (AMZ), Swiss Railways (SBB). The Company also supplies to major clientele across the globe through their European partners.

AEPL is managed by three Directors namely, Mr. Sohm Buchasia, Mr. Shivam Buchasia & Mr. Krishna Kumar Ram who are professionally qualified and have over two decades of experience in international trade in workwear and safety wear.

Company Financial Performance

As per the Audited financial FY18, total operating income to Rs.60.22 crs from Rs.53.51 Crs in FY17. Operating profits were at Rs.4.32 Crs in FY18, down from Rs.4.62 Crs in FY17. The Company reported net profits Rs.0.85 Crores in FY18, up from Rs.0.69 Crs in FY17. Tangible net worth of the Company has increased from Rs.18.65 Crs in FY18 from Rs.17.80 Crs in FY17 on account of ploughing back of profit.

Rating History for the last three years

<table>
<tr><th>S.No</th><th>Facility</th><th colspan="3">Current Rating (2019)</th><th colspan="3">Rating History</th></tr>
<tr><td></td><td></td><td>Type</td><td>Amount (₹ Crs)</td><td>Rating</td><td>11,Jul, 2018</td><td>2016</td><td>2015</td></tr>
<tr><td>1.</td><td>Fund Based
Term Loan</td><td>Long Term</td><td>7.85</td><td>BWR BB
(BWR Double B)
(Reaffirmed)
(Outlook: Positive)
(Revised)</td><td>BWR BB
(BWR Double B)
(Outlook:Stable)
(Assigned)</td><td>-</td><td>-</td></tr>
<tr><td>2.</td><td>Fund Based
Packing Credit</td><td rowspan="2">Short Term</td><td>21.75</td><td rowspan="2">BWR A4
(BWR A Four)
(Reaffirmed)</td><td rowspan="2">BWR A4
(BWR A Four)
(Assigned)</td><td></td><td></td></tr>
<tr><td>3.</td><td>Fund based
Foreign Bills Purchased/
Foreign Bills Negotiation</td><td>16.00</td><td></td><td></td></tr>
</table>

4.	**Fund based** Overdraft against Export Receivables		**1.50**				
5.	**Non Fund Based** Letter of Credit		**0.75**			-	-
6.	**Non Fund Based** Bank Guarantee		**3.00**			-	-
	Total		**50.85**	**INR Fifty Crore Eighty Five Lakhs Only**			

Note: The aforesaid facilities are availed from Indian Bank, Strand Road Branch, West Bengal.

Status of non-cooperation with previous CRA (if applicable)-Not available
Any other information:Not Available

Key Financial Indicators

Key Parameters	**Units**	**2017**	**2018**
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	53.51	60.22
EBITDA	₹ Cr	4.62	4.32
PAT	₹ Cr	0.69	0.85
Tangible Net worth	₹ Cr	17.42	18.38
Total Debt/Tangible Net worth	Times	1.77	1.91
Current Ratio	Times	1.28	1.24

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor Contacts
Hemant S Senior Manager - Ratings B :+91 80 4040 9940 hemant.s@brickworkratings.com **Madhu Sonthalia S** Ratings Analyst D : +91 90739 18942 B :+91 80 4040 9940 madhusonthalia@brickworkratings.com	**Satish Nair** Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 22 6745 6666 satish.n@brickworkratings.com
1-860-425-2742	

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

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.

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