

Press Release

A T Trade Overseas Private Limited

June 10, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 190.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating at '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 190.00 Cr bank facilities of A T Trade Overseas Private Limited. The outlook also continues to remain '**Stable**'.

The ratings continue to favourably reflect on sound business practices of the group supported by the promoter's business experience and long-term presence in the line of business, streamlined business model that is adequately hedged against possible risks and continued maintenance of healthy liquidity. The rating also considers the continuing healthy capital structure characterised by healthy network profile and strong gearing ratios supported by average debt protection metrics. The operations of the group remained impacted due to the pandemic but the prudent practice of methodically accumulating the sale proceeds from customers in the form of fixed deposits, have helped the group to avoid any instances of delayed retirement of LCs, safeguarding against any liquidity crunches. Further, the group co.'s also did not opt for any moratorium benefit or requirement of an emergency credit line from the lenders during FY2021.

About the Hisaria Group

Hisaria Group is promoted by Late Mr. Sawarmal Hisaria in the year 1964, of Hisaria family based out of Mumbai. The firm was initially engaged in the trading of plain dyed cotton & synthetic sarees, blouse pieces, dress material, towels, bed sheets, among others. The group procures the variety of imported bulk cargo from mines & manufacturers situated in Australia, South Africa, Korea, United States of America, United Kingdom, Russia, Egypt, Mexico, China, Indonesia, etc. The Group has built in established presence at all the major ports in country situated at coast of State of Gujarat, Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Orissa, etc. to handle shipments ranging from 50,000 MT to 1,20,000 MT in a single shipload. Pan India coastal connectivity enables the group to cater the customers located in any part of the India.

Hisaria Group comprises of three entities i.e. HK Enterprises (HKE), Ameet Enterprise (AE) and AT Trade Overseas Private Limited (ATPL). The group has diversified its activities into trading of various bulk commodities comprising of:

- | | |
|-------------------------------|-------------------------|
| i. Coal (Coking & Non-coking) | ii. Plastics |
| iii. Shredded Scrap | iv. Copper Coils |
| v. Heavy Melting Scrap | vi. Iron Ore |
| vii. Scrap Iron | viii. Billets & Pellets |
| ix. Sponge Iron | |

About the Company – A T Trade Overseas Private Limited (ATPL)

Incorporated in the year 1997 for trading of imported and domestic dry bulk commodities, ATPL is being managed by Mr. Vijay Jain, Mr. Sandeep Hisaria and Mr. Adarsh Gupta in the capacity of directors. ATPL is mainly engaged into trading of various dry bulk commodities viz. coal, coke, shredded scrap, heavy melting scrap, billets, pellets, sponge iron, iron ores, etc. and textile products. These products are being supplied to various leading domestic players engaged in the industrial manufacturing. ATPL sources/imports the products against the confirmed orders from domestic buyers. The orders are booked as a standard practice of taking 10-15 percent advances against the orders. Such advances are kept as fixed deposits which provides additional liquidity cushion to the company. ATPL is importing coal & coke from South Africa, Indonesia & Australia, Russia & USA and importing materials viz. iron shredded scrap, heavy melting scrap, sponge iron, Iron ore, billets and plates, plastics, etc. from gulf countries,

China, Russia & USA.

Analytical Approach

Acuité has consolidated the business and financial risk profile all of A T Trade Overseas Private Limited (ATPL), H K Enterprises (HKE) and Ameet Enterprises (AE) together referred to as the 'Hisaria Group' (HG). The consolidation is in view of the similar line of business and common promotor family. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Group's vintage presence in trading business**

The group was founded in 1964 by Late Mr. Sawarmal Hisaria, thus; has an operational track record of over five decades. The group started the business with trading of textile products. Later in 1997, sons of Mr. Sawarmal Hisaria - Mr. Sandeep Hisaria and Mr. Sangeet Hisaria joined the family business and diversified the group activities into trading of imported bulk commodities comprising of coal (coking and non-coking), shredded scrap, heavy melting scrap, billets, pellets, sponge iron, iron ores and textile products among others. The established operational track record has helped the group maintain long standing relations with customers and suppliers both in domestic and international geographies. The group benefits from its experienced promoters who collectively possess around four decades of experience in the coal trading industry.

Acuité believes that the group will continue sustaining its existing business profile on the back of its established track record and experienced management.

- **Well-defined business model that minimizes unforeseen distresses**

The group is engaged mainly in the trading of imported bulk commodities like coal with a single shipload estimating 50,000 MT to 1,20,000 MT for supplies to varied large industrial users. The group has chalked out a systematic end-to-end process right from identification of supplier and buyer for a shipment to timely closure of financial obligations against the shipment. The group receives an interest free advance deposit from customer equivalent to 10 to 20 percent of contract value and the title of the cargo remains with the group until complete value of cargo is recovered. Further, the contract agreement also stipulates for the customer to complete the lifting of cargo within an agreed period or the group is eligible to forfeit all advances against the cargo and sell the cargo to another party. The group also maintains an additional margin of approx. 5 percent from customer in order to cover the foreign exchange exposure. The group does not maintain any long-term quantity supply/procurement contract and neither have long-term fixed price contract; each shipment is negotiated independently. The business strategy in place helps the group to minimize any unforeseen losses that may be incurred on distress sale without causing loss to capital value. Acuité takes comfort from the aforesaid business model and believes that adherence to the stipulated model will benefit the business risk profile in the medium term.

- **Streamlined process of timely retirement of LCs'; adequate cash coverage against the same**

The group comprises of three trading concerns who are invested majorly into importing of coking and non-coking coal mainly from overseas. For this activity, the group majorly relies on the letter of credit facility. The co.'s purchases its raw materials which are backed by LCs' with an usance period of 90 to 180 days and the LC payments are made from sale proceeds received in tranches from customers, not exceeding more than 135 days; depending on the complete unloading of cargo. The gap between sales proceeds received by customers to maturing of LCs' generate healthy interest income to the tune of 2.5 percent of the total operating revenue. The group also follows methodically accumulating the sale proceeds in the form of fixed deposits for timely retirement of LC's. No major bunching of the LC's since not all LCs' are due at same point of time. LC outstanding as on Feb, 2021 stood at Rs. 257.28 Cr against an unencumbered cash balance of Rs. 269.78 Cr as on March, 2021. The group co.'s has no intercompany transactions among themselves. Acuité believes that group's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

- **Continuing healthy financial risk profile**

The financial risk profile of the group stood healthy marked by healthy net worth supported by average debt protection metrics and coverage indicators. The net worth of the group stood at Rs. 244.41 Cr as on March 31, 2020 (includes Rs. 49.88 Cr of quasi equity) as against Rs. 222.43 Cr (includes Rs. 49.88 crore of quasi equity) as on March 31, 2019. The gearing (debt-equity) stood low at 0.34 times as on March 31, 2020 as against 0.14 times as on March 31, 2019. The total debt of Rs. 81.99 Cr as on March 31, 2020 mainly comprises Rs. 76 Cr of unsecured loans and Rs. 1.27 Cr of long-term debt.

The coverage indicators are average marked by interest coverage ratio (ICR) which stood at 2.19 times for FY2020 as against 2.26 times for FY2019. Net cash accruals to total debt (NCA/TD) ratio stood at 0.30 times in FY2020 as against 1.37 times in FY2019. Further, the total outside liabilities to tangible net worth (TOL/TNW) ratio stood at 2.75 times as on March 31, 2020 as against 1.60 times as on March 31, 2019. Debt to EBITDA stood at 1.54 times for FY2020 as against 0.34 times for FY2019. Acuite believes that the financial risk profile of the group will continue remain healthy in near to medium term on account of healthy accretion to reserves and comfortable debt protection metrics

Weaknesses

- **Fluctuating nature of working capital cycle**

Hisaria Group's operations have a fluctuating trend of working capital management as reflected by its gross current asset (GCA) days of around 128 days as on March 31, 2020 against 49 days in preceding year. The group has a negative working capital cycle on account of minimal holding period of any inventory and presence of back-to-back payment terms with creditor and debtors. Since these are trading concerns and not restricted to any optimal utilization, the business volumes depend on the demand-supply factors. Besides, as a key to the business model, the ownership of cargo remains with HG until complete lifting and payments are made by customer. The group mostly deals with shipment with sizes from 50,000 to 1,20,000 MT and above wherein the ideal lead time of lifting is nothing less than 135 days (approx. 4 months & above). Therefore, in some years business happens to get cumulated in the year end (February/March) which is why the cycles continue to remain fluctuating. This is inherent to nature of business and practices followed in the group. The current ratio stood at 1.48 times as on March 31, 2020. The fund-based working capital limits over the last six-month period through February 2021, was utilized at a nominal rate, while the peak utilization was high at around 100 per cent during the same period. Acuite expects the working capital management to remain on similar lines over the medium term on account of business policies maintained by the group and presence of back-to-back payment terms with creditor and debtors.

- **Vulnerability of profit margins given the nature of business**

Acuite has observed a fluctuating nature of the profitability margins which are common to trading business in import of coal and naturally mined items. The cargo is generally floating in nature and the deals are categorized in two segments that is FOB deals and CIF deals. In general, FOB deals and trade attract fancy margins when compared to CIF deals. Companies like HG have to pick deals depending on external factors such as the mining companies, needs and urgency of the customer, among others. Therefore, during FY2020, the group had majorly done business in CIF deals which is why the margins stood comparatively low at 3.62 percent in FY2020 against 5.76 percent in FY2019. Although, the group attempts to pick FOB deals but due to externally influenced constraints sometimes the margins stand impacted in such business entities.

- **Competitive and fragmented nature of the industry**

Acuite believes that coal trading is a highly competitive industry due to presence of multiple players along with low entry barriers which has resulted in intense competition from both organised as well as unorganized segments in the industry. Further, any change in regulations and policies could have an adverse impact on the business risk profile of the group and expects the profitability position of the firm to remain modest over the medium term.

- **Impact of the pandemic on business; moderately declining trend of operations**

The onset of the pandemic in the global market happened during December, 2019 where the global economies were under a lockdown furthered in India during March 25, 2020. This had led to shutdown of trade globally. Further, this had impacted the demand supply gap in the market which led to considerable decline in business as the major supplying ports [South Africa, Australia, Brazil, etc.] were shut. Though there was a persistent demand in domestic market, the global supply had drastically shortened. The group, in consolidation, reported a total revenue of Rs.1,427 Cr in FY2020 against Rs.1,548 Cr in FY2019. The revenue no. s further declined in FY2021 (Prov.) at Rs.1,069 Cr. This decline was a result of management's rather conservative call to slowdown the business since there were instances of non-performance in load port and little or no activity caused by lockdown and surge of second wave of the virus. Acuite believes that the resurgence of the pandemic is expected to have a modest impact on the business operations, however, the comfort of liquidity buffers in the group shall mitigate any credit risk or concern in the near term.

Rating Sensitivities

- Improvement in the revenues while sustained improvement in the margins or vice versa
- Any stretch in the already fluctuating nature of working capital cycle owing to nature of business
- Bunching of LCs'; any negative gap in the retirement of LC and outstanding value of fixed deposits
- Any deterioration in the financial risk profile leading to an impact on the overall liquidity

Liquidity: Adequate

HG's liquidity is adequate marked by the adequately available unencumbered cash in the form of FDRs, sufficient cash accruals generated by the business and moderate current ratio. The group has generated cash accruals in the range of Rs.24.49 Cr to Rs.48.35 Cr. during last three years ending FY2020 as against its long-term debt obligations of Rs.0.10 Cr to Rs.0.25 Cr. for the same period. The group is having a negative working capital cycle and the current ratio stood moderate at 1.48 times as on March 31, 2020 with the average fund-based limit remains utilized at 45 per cent over the 12 months ended Feb, 2021. The group maintains moderate level of unencumbered cash and bank balances of Rs.0.40 Cr. and margin bank balance of Rs.376.59 Cr. as on March 31, 2020. Further, this is also supported by the group's non-requirement of moratorium benefits or any emergency credit facility requirement during FY2021. Acuité believes that the liquidity position of HG is likely to remain adequate over the medium term on account of healthy accretion of deposits against its LC retirement over the medium term.

Outlook: Stable

Acuité believes that the outlook on Hisaria Group will remain 'Stable' over the medium term given the favorable industry outlook, its established position and adequately hedged trade linkages and continuous maintenance of robust liquidity. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in the revenues while sustained improvement in its profitability. Conversely, the outlook may be revised to 'Negative' in case of significant bunching of LCs in any particular month and/or in case of negative gap in LC retirement and fixed deposits outstanding or in case of significant deterioration in its financial risk profile or liquidity position overall.

About the Rated Group - Key Consolidated Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,427.62	1,548.16
PAT	Rs. Cr.	24.22	43.62
PAT Margin	(%)	1.70	2.82
Total Debt/Tangible Net Worth	Times	0.34	0.14
PBDIT/Interest	Times	2.19	2.26

About the Rated Entity - Key Standalone Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	645.66	751.50
PAT	Rs. Cr.	13.16	16.45
PAT Margin	(%)	2.04	2.19
Total Debt/Tangible Net Worth	Times	0.20	0.19
PBDIT/Interest	Times	2.29	2.02

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-Dec-2019	Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	22.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	40.00*	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	20.00#	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	63.00	ACUITE A3 (Assigned)

*includes sublimit of cash credit to the extent of Rs.8.00 Cr

#includes forward cover limit of Rs.0.40 Cr

*Annexure – Details of instruments rated

Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00#	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	63.00	ACUITE A3 (Reaffirmed)

*includes sublimit of cash credit to the extent of Rs.8.00 Cr

#includes forward cover limit of Rs.0.40 Cr

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About Acuité Ratings & Research:

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