

Compagnie Indo Francaise De Commerce Private Limited

April 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	140.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	150.00 (Rs. One Hundred Fifty Core Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Compagnie Indo Francaise De Commerce Private Limited (CIFC) continue to drive strength from experience of promoters with long track record of operations in fertilizer trading business, established relationship with customers and suppliers, subdued counterparty credit risk with sales backed by letter of credit, adequate risk mitigation policies in place and the company's moderate financial risk profile. However, the ratings are constrained by low profit margins due to trading nature of business, customer and supplier concentration risk and working capital intensive nature of operations necessitating large working capital borrowings.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with PBILDT margin above 3.5% on sustained basis.
- Improvement in operating cycle below 60 days.
- Improvement in liquidity leading to ROCE above 10%.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in capital structure leading to overall gearing above 0.25x.
- Deterioration in operating cycle above 120 days.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations in fertilizer business

The company has a long track record of around five decades in the fertilizer industry leading to an established position in this segment. The company was promoted by late Mr. Amir Ali Rahimtula who was also the founder chairman of Fertilizer Association of India (FAI). He was also the first Indian Chairman of the Marketing association of European Nitrogen and Complex producers called NITREX and COMPLEX. The company is currently being managed by Mr. H.N. Rahimtula son of Mr. Amir Ali Rahimtula who has an extensive experience of around five decades in the fertilizer trading industry.

Adequate risk mitigation in place

The company is engaged in trading (high seas sale) of ammonia and is thereby exposed to risk associated with fluctuation in price of traded product as well as foreign exchange fluctuation risk. In order to mitigate the price fluctuation risk the company enters in back-to-back orders of buy and sell. The pricing formula is fixed at the time of the order itself with buyer and the supplier agreeing to the price and thus price fluctuation risk is borne by the buyer, which insulates CIFC from any adverse price movement. The company procures its products in USD and bills to its buyers also in USD, however, the company receives the payment in Indian rupees thus exposing it to foreign exchange fluctuation risk. The company hedges all of its exposure by buying forward contracts as per the RBI reference rate similar to the one that buyer uses for conversion of USD invoice to INR. Moreover, the payments from customers are fully secured either in form of sight LC or usance LC backed sales.

Moderate financial risk profile

The debt profile of company primarily includes working capital facility as bill discounting (backed by accepted LCs from buyers). The overall gearing stood high at 7.06x as on March 31, 2021 (PY: 8.78x). The bills are discounted only on accepted LCs, providing security of payment to company. The interest coverage ratio has improved though remained low at 2.43x for FY21 (refers to period from April 01 to March 31) as against 1.95x for FY20, which has improved on account of reduction in the interest cost to Rs 9.43 crore in FY21 (PY: Rs 12.92 crore).

Key Rating Weaknesses

Low profit margins

The total operating income has decreased by ~13% during FY21 to Rs. 976.30 crore as against Rs. 1124.69 crore in FY20 on account of reduced volumes along with lower sales realization. Due to the trading nature of business, the profitability margins of company remain low. PBILDT margin has marginally increased to 2.35% in FY21 as against 2.24% in FY20. PBILDT margin has improved on account of reduction in cost of traded goods as a percentage of total sales along with reduction in employee cost. PAT margin stood low though improved substantially to 1.17% in FY21 from 0.65% for FY20. During 9MFY22 (refers to

period from April 01 to December 31), company reported total operating income of Rs 1326.10 crore with PBILDT margin of 2.72%.

Risk associated with the customer and supplier concentration

The revenue of company is highly concentrated with 97% all of its revenue coming from top 5 customers during FY21 (PY: 92% of total revenue from top 5 customers). The company enters into medium term contracts with its customers which ranges in between 1-1.5 years and the supply price is determined by the USD invoice amount converted to equivalent INR as per RBI reference rate as on the due day of payment as per payment terms. The company procures its traded goods from Shanghai Fertilizer Company (SFC) and P.T. Kaltim Parna Industries, having a combined contribution of about 99% of total purchases in FY21 (PY: 99% of total purchases). However, the concentration risk is mitigated as the suppliers remain a pioneer in manufacturing quality ammonia and are major sellers to some of the geography around the world.

Working capital intensive nature of operations

The operations of company are working capital intensive in nature marked by high collection period of 145 days. The company provides a credit period of 180 days of its customers which are backed by LC whereas company makes payment to its suppliers in 30 days. The company funds its working capital gap by availing the bill discounting facility in order to fund its working capital requirements. During FY21, operating cycle remained at around 117 days (PY: 95 days) with average collection period of 145 days (PY: 123 days) and average creditor period of 28 days (PY: 28 days). However, as CIFC offers credit to only those buyers whose LC opening bank issues acceptance of LC bill for payment on due date, the risk of elongated credit period is reduced to greater extent.

Analytical approach: Standalone

Liquidity: Adequate

The liquidity of the company is adequate as marked by current ratio of 1.08x as on March 31, 2021 (PY: 1.06x). The company has cash and bank balance of Rs 37.67 crore as on March 31, 2021, which includes Rs 33.67 crore of fixed deposits with bank (PY: Rs 29.32 crore). The business model of company leads to low current liabilities and high debtors with no inventories. Further, the unutilized non-fund-based limits stood low at around 25.54% for trailing twelve months ending January, 2021. The company avails LCBD limit from UCO Bank where average utilization remains about 40%, the company's unutilized bank limits are more than adequate to meet its incremental working capital needs over the next one year.

Applicable Criteria:

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

[Rating Methodology - Wholesale Trading](#)

[Financial ratios - Non- Financial Sector](#)

About the Company

Compagine Indo Francaise De Commerce Pvt Ltd (CIFC) was incorporated in 1967 by late Mr. Amir Ali Rahimtula. Mr. H N Rahimtula (his son) is the current Managing Director of the company. The company was operating as a commission agent for importing fertilizer till 2004. Thereafter, the company ventured into trading of fertilizer and allied products. The company is currently engaged in trading of fertilizer and allied products (mainly ammonia) wherein it imports them to supply primarily to domestic PSUs on high seas sale basis.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	8MFY22 (UA)
Total operating income	1,124.69	976.30	1326.10
PBILDT	25.19	22.94	36.12
PAT	7.32	11.38	3.80
Overall gearing (times)	8.78	7.06	NA
Interest coverage (times)	1.95	2.43	1.18

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Working capital facilities		-	-	-	10.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	140.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Working capital facilities	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (12-Mar-21)	1)CARE BBB-; Stable (19-Feb-20) 2)CARE BBB-; Stable (03-Apr-19)	-
2	Non-fund-based - ST-BG/LC	ST	140.00	CARE A3	-	1)CARE A3 (12-Mar-21)	1)CARE A3 (19-Feb-20) 2)CARE A3 (03-Apr-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based-Working capital facilities	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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