January 08, 2025

Intertex Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based- Cash credit	10.00	10.00	[ICRA]BB+ (Stable); reaffirmed
Long-term – Interchangeable	(5.00)	(6.00)	[ICRA]BB+ (Stable); reaffirmed
Short term - Non-fund based - Letter of Credit	115.00	115.00	[ICRA]A4+; reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Intertex Private Limited (IPL) factors in the company's established operational track record and extensive experience of its promoters in the bulk trading of multiple commodities, its adequate risk management practices, which mitigate pricing and inventory risks for the company to an extent, and its adequate liquidity position, which supports its credit profile. In FY2024, IPL's revenues moderated further to Rs. 203.8 crore from Rs. 429.3 crore owing to slowdown in business operations across steel and coal industries across the globe. Additionally, prolonged monsoons within the domestic market resulted in slower offtake by customers. Nonetheless, its operating margins improved to 2.4% from 1.3% over this period owing to the traded product mix. IPL achieved revenues of Rs. 115 crore till H1 FY2025 and is expected to report a modest revenue growth for the entire fiscal, supported by the orders in hand.

The ratings are, however, constrained by IPL's modest scale of operations and limited economies of scale owing to intense competition in the industry. Further, its trading nature of operations results in weak profit margins and volatility in revenues. Besides a low net worth base and high creditor levels, this has continued to result in a relatively higher leverage levels for IPL. The ratings also factor in IPL's exposure to high supplier and customer concentration risks and the vulnerability of its margins to any adverse movement in foreign exchange rates, given the sizeable dependence of the business on imports. However, the same is mitigated to an extent as the company is largely able to pass on the same to its customers. ICRA has also noted the build-up of receivables outstanding for more than six months due to delay in payments by a key customer, accentuating the overall funding requirements of the business. Any prolonged delay in recovery of these receivables, impacting the company's operations and liquidity position, will remain a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that IPL will continue to benefit from the extensive experience of its promoters in the business, and stable demand outlook for commodities that it trades in, supporting its operations.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in bulk trading business of various commodities – Incorporated in 1982, IPL is involved in trading bulk commodities such as coal, iron ore and shredded scrap. The company benefits from the extensive experience of its promoters and their established operational track record, which helps secure repeat orders from its customers.

Adequate risk management policy mitigates pricing and inventory risks – IPL has adopted stringent compliance and risk management practices, including entering an agreement with the buyer to facilitate the import of materials. The company procures materials only after entering firm supply arrangements with customers, along with an interest-free advance of 10-

20% of the order value. As per the terms of the contracts with customers, all the costs of service providers at the loading and discharge ports, custom duties, as well as forex variations are to be borne and payable by the buyer. The materials are supplied on a cash-and-carry basis to customers, while the advance deposit is settled only at the time of lifting of the last batch of shipment. Also, the customer must complete the lifting within the agreed period of 90-180 days. Alternatively, IPL will have the right to assign or sell the cargo to any third-party and can forfeit the advance to recover damages, charges, and losses, if any, on such sale. Stringent contract terms mitigate the counterparty risk to an extent.

Credit challenges

Modest scale of operations with volatility in revenue – IPL's scale of operations continues to remain modest, as reflected by moderation in revenue to Rs. 203.8 crore and Rs. 115.0 crore in FY2024 and H1 FY2025, respectively. However, execution of the orders in the pipeline are likely to support revenue growth in H2 FY2025. Also given the trading nature of the company's operations, the volatility in its revenues is expected to sustain in the business. However, the moderate scale coupled with its order-driven business results in limited economies of scale for the company.

High leverage due to reliance on creditors' funding – IPL's high reliance on creditors and working capital limits from banks and low net worth base led to relatively higher leverage levels, as indicated by TOL/TNW of 6.3 times as on March 31, 2024. On account of higher procurement by the end of FY2024, creditors marked a significant increase as on March 31, 2024, resulting in higher TOL/TNW. Nonetheless, with supply of this inventory on a cash-and-carry basis by Q1 FY2025, creditor days moderated by H1 FY2025. However, its leverage levels are expected to remain high over the near-to-medium term, owing to high dependency on creditor and bank funding required for import purchases under the letter of credit (LC) facility from the bank due to the trading nature of business, lower net worth position and low profitability.

Weak profit margins due to trading nature of business; intense competition limits scope of margin expansion – The company's profitability remains weak, restricted by the trading nature of its business, with no value addition. IPL further faces intense competition from numerous organised and unorganised trading houses, limiting its pricing flexibility and bargaining power with customers, restraining the scope of margin expansion.

Exposed to high customer and supplier concentration risks – The company facilitates its customers to source goods at competitive prices, while aggregating product orders and importing/ sourcing bulk consignments from its suppliers, which are pre-decided by its customers. Hence, IPL faces high customer and supplier concentration risks due to bulk sales and purchases. In FY2024, its top five customers accounted for 100% of its total sales, while its top four suppliers accounted for ~100% of its total purchases.

Profit margins remain vulnerable to any adverse movements in forex rates – IPL relies heavily on imports for its operations, which expose the company to any adverse foreign exchange rate fluctuations, leading to vulnerability in profit margins. However, as per the terms of the contract, any change in forex rates and charges like custom and import duties are borne by the clients, largely mitigating the forex risk for the company.

Liquidity position: Adequate

IPL's liquidity is adequate, supported by free cash and bank balance and liquid investment of Rs. 21.51 crore as on December 16, 2024 along with adequate utilised bank limits. ICRA expects IPL to be able to meet its near-term commitments through internal sources of cash and debtor's realisation. Moreover, the company does not have any term loan repayment obligations and capital expenditure (capex) plans in the near-to-medium term, which support its liquidity to some extent.

Rating sensitivities

Positive factors – ICRA is likely to upgrade IPL's ratings if any sustained improvement in its profit margins or infusion of funds as capital, strengthens the net worth base. Concurrently, the ability of IPL to maintain an adjusted[1] interest coverage above 2.8 times, on a sustained basis, would trigger ratings upgrade.

Negative factors – Pressure on IPL's ratings could arise if lower-than-expected accruals due to notable decline in profitability, or any unanticipated increase in non-fund-based borrowings result in increased TOL and further weakening of coverage indicators. The company's inability to maintain adequate adjusted interest coverage ratio of above 1.5 times, on a sustained basis, may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

IPL, incorporated in 1982, is involved in trading of various bulk commodities, such as iron ore, steel products, coal and others. It mainly imports products against confirmed orders from buyers and aggregates the total requirement of its customers and imports the material in bulk for achieving economies of bulk purchases. The company is managed by the members of the Sanghai family, who have been involved in this business since early 2000.

Key financial indicators (audited)

IPL – Standalone	FY2023	FY2024
Operating income	429.3	203.8
PAT	2.6	1.6
OPBDITA/OI	1.3%	2.4%
PAT/OI	0.6%	0.8%
Total outside liabilities/Tangible net worth (times)	3.9	6.3
Total debt/OPBDITA (times)	9.5	9.9
Interest coverage (times)	0.9	0.8
Adjusted interest coverage (times)	1.6	1.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: All financial ratios as per ICRA's calculation

[1] *Adjusted OPBDIT including interest income from cash (encumbered and unencumbered) and other liquid investments*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based limits – Cash credit	Long Term	10.00	08-Jan-2025	[ICRA]BB+ (Stable)	30-Nov-2023	[ICRA]BB+ (Stable)	28-Sep-2022	[ICRA]BB+ (Stable)	30-Jul-2021	[ICRA]BB (Stable)
Interchangeable	Long Term	(6.00)	08-Jan-2025	[ICRA]BB+ (Stable)	30-Nov-2023	[ICRA]BB+ (Stable)	28-Sep-2022	[ICRA]BB+ (Stable)	30-Jul-2021	[ICRA]BB (Stable)
Non-fund-based limits – Letter of Credit	Short-term	115.00	08-Jan-2025	[ICRA]A4+	30-Nov-2023	[ICRA]A4+	28-Sep-2022	[ICRA]A4+	30-Jul-2021	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based- Cash credit	Simple
Long-term – Interchangeable	Simple
Short term - Non-fund based - Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits – Cash Credit	-	-	-	10.00	[ICRA]BB+ (Stable)
NA	Long term – (Interchangeable)	-	-	-	(6.00)	[ICRA]BB+ (Stable)
NA	Non-fund-based limits – Letter of Credit	-	-	-	115.00	[ICRA]A4+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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