

Press Release

Dhar Coal Products Private Limited

07 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 55.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as SMERA BB) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 55.00 crore bank facilities of Dhar Coal Products Private Limited (Dhar Coal). The outlook is '**Stable**'.

Established in 1991, Dhar Coal was promoted by Mr Parasmal Deshlehra and family. The Indore-based company trades in non-coking coal products of various grades.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

The company has long track record of operations. The promoter, Mr. Parasmal Deshlehra has two decades of experience in the coal industry. The extensive experience has helped the company establish comfortable relations both with customers and suppliers.

- **Strong financial risk profile:**

The strong financial risk profile is marked by capital structure, moderate networth and comfortable debt protection metrics. The gearing is nil as on March 31, 2017 (Provisional) due to low bank facility utilisation during the year compared to 1.21 times in FY2016. The company has moderate net worth base of Rs.20.49 crore in FY2017 (Provisional) and Rs 14.29 crore in FY2016. The debt protection metrics are comfortable with interest coverage ratio of around 7.96 times in 2017 (Provisional) and 2.28 times in FY2016. SMERA has treated Rs 6 crore of unsecured loan from promoters and their relatives as quasi equity based on confirmation from the management that the amount would be retained in the business over the medium term.

Weaknesses

- **Moderate working capital cycle management:**

The company has moderate working capital cycle management; the gross current assets stood at 76 days in FY2016-17 (Provisional) compared to 80 in FY2016 due to high debtor days of 44 and 55 in FY2017 and in FY2016.

- **Low profitability margins:**

The company operates at thin profit margins in line with the trading nature of business. The company reported operating margin of 1.30 per cent in FY2016 compared to 1.04 per cent in FY2015. The net profit margin stood at 0.49 per cent in FY2016 as compared to 0.61 per cent in FY2015. There has been improvement in the operating margin to 6.51 per cent and net profit margin to 5.31 per cent in FY2017 (Provisional), on account of strong procurement network in Indonesia, favourable

rate movement and quicker decision making regarding fixation of prices resulting in quicker turn around time. However, whether the company will be able to sustain the margin level over the medium term will remain the key rating sensitivity factor

• Commodity nature of business and susceptibility to fluctuating raw material prices:

Dhar Coal is engaged in trading activity, with low value addition of products. This is reflected in the raw material cost (including transportation cost), which is around 95 per cent of cost of sales. The trading business is marked by low operating margin of 1-2 per cent. Also, operations are sensitive to fluctuations in inventory prices and debtors' credit risk. Although over 50 per cent of the inventory is order backed, it is still susceptible to volatility in coal prices.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that the company will benefit from its long track record of operations and experienced management over the medium term. The outlook may be revised to Positive in case of higher than expected revenue generation with healthy operating margins and working capital management leading to better financial flexibility. Conversely, the outlook may be revised to Negative in case of lower than expected revenue generation leading to unhealthy profit margins.

About the Rated Entity - Key Financials

The company reported PAT of Rs 0.84 crore on operating income of Rs 170.98 crore in FY2015-16 as compared to PAT of Rs 0.60 crore on operating income of Rs 98.75 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A4+
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+

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