

Press Release

Dhar Coal Products Private Limited

January 10, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 55.00 crore bank facilities of Dhar Coal Products Private Limited (DHAR). The outlook is '**Stable**'.

Incorporated in 1991, DHAR is Madhya-Pradesh based company promoted by Mr. Parasmal Deshlehra and his family. The company is engaged in trading of non-coking coal of various grades. The company imports coal from countries such as Indonesia, South Africa and Singapore, to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DHAR to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The company was established in 1991 and has operational track record of nearly three years. The promoter possess nearly three decades of experience in coal industry and is ably assisted by an experienced second line of management.

Acuité believes that DHAR will continue to benefit from its management's extensive experience which will help the firm to maintain long standing relations with its customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.21.53 crore as on 31 March, 2018 as against Rs.15.16 crore in the previous year. The improvement in net worth is on account of accretion of reserves. Net worth includes unsecured loan of Rs.1.10 crore as on 31 March, 2018 from promoters which are treated as quasi equity based on the undertaking provided by the management that the same will be maintained in the business over the long term. The gearing stood low at 0.26 times as on 31 March, 2018 as against 0.33 times in the previous year. The total debt of Rs.5.64 crore entirely comprises of unsecured loan from promoters. Further, the company avails Non-fund based exposure of Rs.50.00 crore which are seen under creditors as they are LC backed. Interest Coverage Ratio (ICR) stood at 5.42 times in FY2018 as against 3.99 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.78 times as on 31 March, 2018 as against 1.93 times in the previous year. The net cash accruals to total debt (NCA/TD) stood high at 1.13 times in FY2018 compared to 1.22 times in FY2017.

Going forward, Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 116 days in FY2018 as compared to 72 days in FY2017. The GCA days are mainly dominated by high collection

period of 79 days in FY2018 compared to 44 days in FY2017. The inventory holding period stood comfortable at 6 days in FY2018 compared to 9 days in FY2017.

Acuité believes that the efficient working capital management will be crucial in order to maintain a stable credit profile.

• Elongated creditor days

DHAR's creditor days stood at 114 days in FY2018 as against 51 days in FY2017 and 19 days in FY2016. Creditors in FY2018 stood at Rs.50.11 crore which include Rs.47.10 crore for suppliers which are LC backed as against Rs.21.88 crore in FY2017 which includes Rs. 21.05 crore for suppliers which are LC backed.

• Susceptibility to fluctuations in demand and intense competition

The major users of coal belong to steel, power and cement industry and hence, the demand for coal depends on these industries. Lower demand from these industries will impact the overall performance of the company. Further, it is exposed to intense competition from many small and medium sized players.

Outlook: Stable

Acuité believes that DHAR's outlook will remain 'Stable' and the company will benefit over the medium term from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while maintaining its working capital. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or higher than envisaged debt funded capex or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	174.16	169.41	170.98
EBITDA	Rs. Cr.	10.84	9.25	2.22
PAT	Rs. Cr.	6.36	5.19	0.84
EBITDA Margin	(%)	6.23	5.46	1.30
PAT Margin	(%)	3.65	3.07	0.49
ROCE	(%)	50.42	40.35	10.14
Total Debt/Tangible Net Worth	Times	0.26	0.33	2.16
PBDIT/Interest	Times	5.42	3.99	2.28
Total Debt/PBDIT	Times	0.47	0.47	9.47
Gross Current Assets (Days)	Days	116	72	79

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Sep-2018	Proposed Cash Credit	Long Term	3.00	ACUITE BB (Indicative)
	Cash Credit	Long Term	2.00	ACUITE BB (Indicative)
	Letter of Credit	Short Term	30.00	ACUITE A4+ (Indicative)
	Proposed Letter of Credit	Short Term	20.00	ACUITE A4+ (Indicative)
07-Sep-2017	Cash Credit	Long Term	3.00	ACUITE BB / Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A4+ (Assigned)
	Proposed Letter of Credit	Short Term	20.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE BB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A4+ (Reaffirmed)

*one way interchangeability from CC to LC of Rs.5.00 crore.

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About Acuité Ratings & Research:

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