Press Release

Carbon Resources Private Limited

05 December, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 55.25 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of **'SMERA A-' (read as SMERA A minus)** and short term rating of **'SMERA A2+' (read as SMERA A two plus)** on the Rs. 55.25 crore bank facilities of Carbon Resources Private Limited (CRPL). The outlook is **'Stable'**.

CRPL is a Kolkata-based company promoted by Mr. Suresh Kumar Jalan in 1991. Currently, the second generation promoters consisting of Mr. Abhinav Jalan and Mr. Abhishek Jalan are actively involved in the business. The company manufactures carbon products – Calcined Petroleum Coke (CPC) and Carbon Electrode Paste (CEP) and has installed capacity of 51,800 tonnes per annum (TPA) and 36,000 TPA respectively. The manufacturing facilities are located at Barauni (Bihar) and Chirang (Assam) for CPC and Giridih (Jhakrkhand) for CEP.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Incorporated in 1991, CRPL has a track record of over two decades in the manufacturing of CPC and CEP. The promoter, Mr. Suresh Kumar Jalan has experience of over two decades in the industry. The second generation promoters are currently actively involved in the day to day operations of the company.

Comfortable financial risk profile

The above average financial risk profile is marked by comfortable gearing, debt protection metrics and moderate net worth. The gearing (Debt- equity) improved to 1.04 times in FY2017 compared to 1.29 times in FY2016. The interest coverage stood comfortable at 3.15 times in FY2017 as against 1.98 times in FY2016. The DSCR improved to a comfortable 2.78 times in FY2017 as against 1.97 times in the previous year. Moreover, NCA/TD stood at 0.21 times in FY2017. The net worth stood at a moderate Rs 30.32 crore in FY2017 as against Rs 24.91 crore in FY2016. The total debt of Rs 31.58 crore as on 31 March, 2017 consists of long term debt of Rs 6.14 crore and Rs 25.44 crore of short term debt.

Established relation with reputed customers and suppliers

Over the years, the company has been able to establish comfortable relations with their customers and suppliers. CRPL caters to mainly the aluminum and steel industry for offtake of CPC and ferro alloys players for CEP. The company derives around 50 per cent of their revenues from the CEP unit and around 50 per cent from their CPC units. The customers of the company for their CEP division comprise of players such as

Maithan Alloys Ltd and Jindal Stainless Ltd whereas for CPC division the company caters to Hindalco Industries Limited and Steel Authority of India Limited to name a few.

On the other hand, the company procures their key raw material petroleum coke from major oil refineries, Indian Oil Corporation Limited and Numaligarh Refinery Limited for manufacturing of CPC while for CEP the major raw material in the form of Electrically Calcined Anthracite (ECA) is imported from China.

Weaknesses

Modest scale of operations

The scale of operations is modest with revenue of Rs 134.37 crore in FY2017 as against Rs 127.29 crore in FY2016. The company has booked revenues of around Rs. 92.38 crs till September 2017 (provisional). Going forward, SMERA believes that revenue will increase by steadily over the medium term driven by the capex undertaken to manufacture CEP at Bobbili Vizianagaram (Andhra Pradesh) of 48,000 MTPA.

Working capital intensive operations

The operations are working capital intensive as reflected in the gross current asset days (GCA) of 123 in FY2017 and 107 days in FY2016. The company realizes its receivables within 50-60 days and maintains an average inventory of 15 to 30 days. The payment is made in advance to suppliers. The company on an average utilized ~ 92 per cent of its working capital limit in the last six months ended September 2017.

Debt funded capex plan

CRPL is currently focusing on CEP in order to increase its market share. The company has plans to install a CEP unit at Bobbili Vizianagaram (Andhra Pradesh) of 48,000 MTPA capacity at a cost of Rs 18 crore to be completed in two phases. The first phase (18,000 MT) is expected to commence operations from April 2018 while the next phase will start operations from FY2019-20. The additional production from the new plant will be sold in both the domestic and international markets.

The aforementioned project is expected to be funded from a term loan of Rs 7.50 crore (sanctioned, yet to be availed) and balance from internal accruals. Till October '17, CRPL expended ~ Rs 8 crore towards this project. The company is likely to benefit from locational advantage since the site is close to Vizag port enabling strategic advantage in terms of import of raw material (ECA) from China and sale of end products. SMERA believes that timely completion of the project will be the key rating sensitivity.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of CRPL.

Outlook: Stable

SMERA believes that CRPL will maintain a stable outlook and continue to benefit over the medium term from the promoters' extensive experience in the carbon industry. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements. Any delay in implementation of the debt funded capex undertaken may also entail a Negative outlook.

About the Rated Entity - Key Financials

For FY2016-17 - the company reported Profit after tax (PAT) of Rs 4.38 crore on operating income of Rs 134.37 crore as against PAT of Rs 2.29 crore on operating income of Rs 127.29 crore in FY2015-16.

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

None

Any other information

None

Applicable Criteria

- Default Recognition -https://www.smera.in/criteria-default.htm
- Manufacturing Entities -https://www.smera.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.50	SMERA A-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.15	SMERA A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.10	SMERA A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A2+ (Assigned)
Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A2+ (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Aniruddha Dhar Rating Analyst Tel: 033-66201212 aniruddha.dhar@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*