

Press Release

Carbon Resources Private Limited

December 20, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 55.25 crore bank facilities of Carbon Resources Private Limited (CRPL). The outlook is '**Positive**'.

The revision in outlook is on account of the expected improvement in the business risk profile of CRPL. Further with the ongoing capex to enhance its current to 86,000 MTPA from 38,000 MTPA for Carbon Electrode Paste is likely to be completed by this financial year, Acuité expects an improvement in the top-line during medium term. Acuité believes that the profitability margins of the company would improve over the medium term mainly due to improvement in their realization levels. However, sustenance of the realization levels would remain a key credit moniterable.

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, such as, Calcined Petroleum Coke (CPC) and Carbon Electrode Paste (CEP) and has an installed capacity of 51,800 tonnes per annum (TPA) and 38,000 TPA, respectively. The manufacturing facilities are located at Barauni (Bihar) and Chirang (Assam) for CPC and Girdih (Jharkhand) for CEP.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of CRPL to arrive at the rating.

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.

• Healthy financial risk profile

The robust financial risk profile is marked by healthy net worth, comfortable gearing and healthy debt protection measures. The net worth stood at around Rs.52.60 crore as on 31 March, 2018 as against Rs.30.32 crore in the previous year. The gearing (debt equity) stood at 0.73 times as on 31 March, 2018 compared to 0.97 times in the previous year. The total debt of Rs.38.35 crore as on 31 March, 2018 consists of term loan of Rs2.62 crore, Rs.1.70 crore of unsecured loan from directors and working capital facility of Rs.34.03 crore. The term loan has been repaid in the current financial year from the cash accruals. The interest coverage ratio improved and stood healthy at 12.22 times in FY2018 as against 3.15 times in FY2017. The DSCR stood comfortable at 5.95 times in FY2018 compared to 2.78 times in FY2017. Moreover, the NCA/TD stood at 0.67 times in FY2018. Going forward, Acuité expects continuous improvement in the overall financial health of the company in the absence of any significant debt funded capex plan over the medium term as the ongoing capex from own sources of ~ Rs.30.00 crore is at the verge of completion.

- **Healthy growth in revenue and profitability**

CRPL registered a 70.88 percent revenue growth in FY2018. Revenue increased to Rs.229.62 crore in FY2018 from Rs.134.37 crore in FY2017. The rise is on account of significant improvement in realisation per unit. Also during the current year, the company booked revenue of Rs.216.00 crore till 30 September, 2018 (Provisional). The operating profitability margins improved to 15.12 percent in FY2018 as compared to 8.78 percent in the previous year. The increase in the profitability margins is on account of significant improvement in realisation without corresponding rise in the raw material cost. The improvement in realisation could be attributed to the positive demand outlook in the end user industry specially graphite electrode, ferro alloys and aluminum. The improvement in top-line and margins have led to the increase in net accruals which stood at Rs.25.81 crore in FY2018 as compared to Rs.6.76 crore in the previous year.

- **Established relations 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, graphite electrode and steel industry for offtake of CPC and ferro alloys players for CEP. The company derives around 50 percent of their revenues from the CEP unit and around 50 percent from their CPC units. The customers of the company for their CEP division comprise of players such as Maithan Alloys Limited and Jindal Stainless Limited, whereas for CPC division the company caters to Hindalco Industries Limited, Graphite India Limited and HEG Limited to name a few. On the other hand, the company procures their key raw material, petroleum coke, from major oil refineries including 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

- **Cyclical industry and susceptibility of profitability to volatility in raw material prices**

The performance of CRPL is dependent on the cyclicity in the end user industries viz. aluminum, graphite and ferro alloys. CRPL is also exposed to fluctuations in the raw material prices. Any sharp upward movement in the raw material prices and the inability of the company to pass on the increased cost of raw materials may result in a dip in operating margins.

Outlook: Positive

Acuité believes that CRPL credit profile will be benefitted in the medium term by continuous improvement in the profitability metrics, expected improvement in the scale of operations backed by the experienced management and positive end user industry outlook.

Upgrade Scenario

Sustenance of the scale of operation and profitability. The Debt-EBITDA to remain below 0.50 times.

Downside Scenario

Operating performance deteriorates because of significant deterioration in realisation thereby weakening profitability. Stretch in the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 229.62 | 134.37 | 127.29 |
| EBITDA | Rs. Cr. | 34.73 | 11.80 | 9.61 |
| PAT | Rs. Cr. | 22.28 | 4.38 | 2.29 |
| EBITDA Margin | (%) | 15.12 | 8.78 | 7.55 |
| PAT Margin | (%) | 9.70 | 3.26 | 1.80 |
| ROCE | (%) | 41.50 | 16.33 | 12.34 |
| Total Debt/Tangible Net Worth | Times | 0.73 | 0.97 | 1.29 |
| PBDIT/Interest | Times | 12.22 | 3.15 | 1.98 |
| Total Debt/PBDIT | Times | 1.10 | 2.48 | 3.30 |
| Gross Current Assets (Days) | Days | 117 | 123 | 107 |

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

CRISIL vide its press release dated March 21, 2018 had denoted the rating of Carbon Resources Private Limited as 'CRISIL BBB+/ Stable/CRISIL A2 (ISSUER NOT COOPERATING; Rating Migrated)'

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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 |
|-------------|---------------------------------|------------|------------------|-------------------------------|
| 05-Dec-2017 | Cash Credit | Long Term | 35.50 | ACUITE A- / Stable (Assigned) |
| | Term Loan | Long Term | 8.15 | ACUITE A- / Stable (Assigned) |
| | Letter of Credit | Short Term | 3.10 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 8.00 | ACUITE A2+ (Assigned) |
| | Proposed Short Term Loan | Short Term | 0.50 | ACUITE A2+ (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 | 35.50 | ACUITE A- / Positive (Re-affirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 8.15 | ACUITE A- / Positive (Withdrawn) |
| Proposed Long Term Loans | Not Applicable | Not Applicable | Not Applicable | 8.15 | ACUITE A- / Positive (Assigned) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 3.10 | ACUITE A2+ (Re-affirmed) |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 8.00 | ACUITE A2+ (Re-affirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A2+ (Re-affirmed) |

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About Acuité Ratings & Research:

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