

Press Release

Carbon Resources Private Limited

June 29, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 355.25 Cr. (Enhanced from Rs.55.25 Cr)
Long Term Rating	ACUITE A/Stable (Reaffirmed)
Short Term Rating	ACUITE A1 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A**' (read as **ACUITE A**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to Rs. 355.25 Cr bank facilities of Carbon Resources Private Limited (CRPL). The outlook is '**Stable**'.

The rating continues to derive comfort from the consistent improvement in the business risk profile of the company driven by improvement in top-line and backward integration in operations. Moreover, the rating also factors robust financial risk profile of the company marked by healthy network, comfortable gearing and strong debt protection metrics.

Carbon Resources Private Limited (CRPL) was incorporated in 1991 by Mr. Suresh Kumar Jalan. Currently, the company is headed by Mr. Suresh Kumar Jalan, Mrs. Renu Jalan, Mr. Abhinav Kumar Jalan and Mr. Abhishek Jalan. The company started its operations with distillation of Crude Coal Tar and over a period, it diversified into manufacturing Calcined Petroleum Coke (CPC) and Carbon Electrode Paste (CEP). Further, the company has undertaken backward integration for their CEP unit and also entered into new business line i.e. trading of manganese ore from FY2019. The company has CPC manufacturing facilities located at Barauni, Bihar and Chirang, Assam with a total installed capacity of 51800 TPA and has CEP manufacturing facility located at Giridh, Jharkhand with an installed capacity of 38000 TPA.

The rating factors the supernormal growth in top-line and profitability margins of CRPL in FY2019 compared to FY2018. The reason being, in 2019, the key global supplier of graphite electrodes, China asked its entire graphite electrode manufacturing companies to relocate the plants to adhere to stricter environmental norms. The incident resulted in acute shortage of graphite electrodes supply globally and eventually the price of graphite electrodes along with its key raw materials increased sharply. One of the key raw material of graphite electrode, special grade CPC which ranged between Rs.30,000 – Rs.40,000 per MT peaked at approximately Rs. 175,000 per MT. Hence the average price realization of CRPL also increased from Rs. 35000 per MT in FY 2018 to around 70,000 per MT in FY 2019. However, production of graphite electrodes have resumed in China from FY2020 along with addition of new capacities thereby moderating its price per unit.

Analytical Approach

Acuite 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

Established in 1991, Carbon Resources Private Limited (CRPL) has a long operational track record of almost three decades in the industry. Mr. Suresh Kumar Jalan is the key promoter of the company. Currently, the second generation promoters are managing the day to day operations of the company. Over the years, they have been able to establish comfortable relationships with reputed customers. Acuite believes that the long track record of operations will benefit the company going

forward resulting in steady growth in the scale of operations

- **Diversification of business and backward integration**

CRPL has entered into new business line, trading of manganese ore and generated revenue of Rs.150 Cr from this segment in FY2020 (Provisional). The company imports manganese ore from South Africa and Australia and supplies to its existing customers, who are ferro alloy producers. Further, the company completed backward integration for its CEP plant to reduce its operational cost apart from reducing dependence on imports from October 2019. Acuite believes that going forward the backward integration will lead to improvement in profitability margins and the top-line will improve due to the diversification of business. However, the trading nature of operations which are inherently low margin in nature would lead to moderation in their profitability margins.

- **Healthy relationship with reputed customers and suppliers**

Over the years, the company has built strong relationship with reputed domestic customers. The major customers for Carbon Electrode Paste (CEP) are in the ferro alloy industry, namely, Jindal Stainless Limited, Abhijeet Ferrotech Limited, Maithan Alloys Limited and Berry Alloys Limited. The customers for Calcined Petroleum Coke (CPC) are primarily in aluminum, Steel & graphite electrodes industry, namely, Hindalco Industries Ltd, SAIL, and HEG Limited. Moreover, the company has been minimally impacted by the COVID-19 pandemic since it caters to end user industries which are strategically important and their major customers had requested them to continue supply of products. The company has also established healthy relationship with the suppliers, viz Indian Oil Corporation Limited (IOCL), SAIL, Tata steel Limited and Numaligarh Refinery Limited, to name a few. CRPL procures key raw material, petroleum coke, from major oil refineries.

- **Robust financial risk profile**

The company's financial risk profile is marked by healthy network, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.179.44 Cr as on March 31, 2019 from Rs.52.60 Cr as on March 31, 2018 due to abnormal rise in profits in FY2019. It has further improved to Rs.236.73 Cr as on March 31, 2020 (provisional). The company has comfortable gearing at 0.06 times as on March 31, 2019 as against 0.73 times as on March 31, 2018. The gearing stood at 0.04 times as on March 31, 2020 (provisional). The debt of Rs.10.68 Cr mainly consists of long term debt of Rs.2.03 Cr and working capital borrowing of Rs.4.93 Cr and current maturity of term loan of Rs.1.14 Cr and unsecured loan of Rs.2.58 Cr as on March 31, 2019. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.14 times as on March 31, 2019 as against 1.00 times as on March 31, 2018. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 64.20 times in FY2019 compared to 12.25 times in FY2018 and the NCA/TD of 12.15 times as on March 31, 2019 compared to 0.68 times as on March 31, 2018. The debt protection metrics remained comfortable marked by Interest Coverage Ratio at 37.74 times in FY2020 (provisional) and the NCA/TD is at 5.97 times as on March 31, 2020 (provisional). Acuite believes that going forward the financial risk profile of the company will remain strong backed by steady accruals and no major debt funded capex plans.

Weakness

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

The performance of CRPL is dependent on the cyclical nature in the end user industries viz. aluminum, graphite and ferroalloys. 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. However, this risk is mitigated to an extent on account of company's move to backward integration.

Rating Sensitivity

- Improvement in the scale of operation while maintaining profitability margin
- Working capital management in operations

Material Covenant

None

Liquidity Profile

The company's liquidity is strong marked by net cash accruals of Rs.129.71 Cr in March 31, 2019 as against debt repayment obligation of Rs.1.14 Cr. The current ratio stood strong at 6.55 times as on March 31, 2019 as compared to 1.52 times as on March 31, 2018. Though the current ratio has moderated to 2.20 times as on March 31, 2020 (provisional), it is still in comfortable level. The fund based limit remains utilised at around 36.74 percent over the six months ended Feb, 2020. The company has not availed any loan moratorium or additional covid loans. The cash and bank balances of the company stood at Rs.0.29 Cr as on March 31, 2019 as compared to Rs.0.35 Cr as on March 31, 2018. It has increased to Rs.0.50 Cr as on March 31, 2020 (provisional). The company has free fixed deposit with bank of Rs.7.01 Cr as on March 31, 2020 (provisional) as compared to Rs.6.86 Cr as on March 31, 2019. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 150 days as on March 31, 2020 (provisional) as against 94 days in March 31, 2019 and 117 days in March 31, 2018. The increase in GCA days in FY'20 (Prov) could be attributed to their trading operations. Acuite believes that going forward the company will maintain their strong liquidity position backed by steady accruals and healthy network base.

Outlook: Stable

Acuite believes the outlook on Carbon Resources Private Limited will remain stable over the medium term backed by long track record of operations, experienced promoters, reputed customer base and robust financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	443.38	229.62
PAT	Rs. Cr.	126.84	22.28
PAT Margin	(%)	28.61	9.70
Total Debt/Tangible Net Worth	Times	0.06	0.73
PBDIT/Interest	Times	64.20	12.25

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	Cash Credit	Long Term	0.20 (Reduced from	ACUITE A/Stable (Upgraded from

04-Jun-2020			Rs.25.50 Cr)	A-/Positive)
	Cash Credit	Long Term	5.00	ACUITE A/Stable (Upgraded from A-/Positive)
	Cash Credit	Long Term	2.00 (Reduced from Rs.8.15 Cr)	ACUITE A/Stable (Upgraded from A-/Positive)
	Cash Credit	Long Term	5.00	ACUITE A/Stable (Upgraded from A-/Positive)
	Letter of Credit	Short Term	10.00 (Increased from Rs. 3.50 Cr)	ACUITE A1 (Upgraded from A2+)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded from A2+)
	Letter of Credit	Short Term	22.29	ACUITE A1 (Upgraded from A2+)
	Bank Guarantee	Short Term	0.76 (reduced from Rs.8.00 Cr)	ACUITE A1 (Upgraded from A2+)
27-Apr-2019	Cash Credit	Long Term	25.50	ACUITE A-/Positive (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A-/Positive (Reaffirmed)
	Cash Credit	Long Term	8.15	ACUITE A-/Positive (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A-/Positive (Reaffirmed)
	Letter of Credit	Short Term	0.10	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	3.50	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Reaffirmed)
20-Dec-2018	Cash Credit	Long Term	35.50	ACUITE A-/Positive (Reaffirmed)
	Term Loans	Long Term	8.15	ACUITE A-/Positive (Withdrawn)
	Proposed Long term loan	Long Term	8.15	ACUITE A-/Positive (Assigned)
	Letter of credit	Short Term	3.10	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	8.00	ACUITE A2+ (Reaffirmed)
	Proposed Short term loan	Short Term	0.50	ACUITE A2+ (Reaffirmed)

***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	0.20	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00 (Enhanced from Rs.5.00 Cr)	ACUITE A/Stable (Reaffirmed)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs.2.00 Cr)	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00 (Enhanced from Rs.5.00 Cr)	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Reaffirmed)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00 (Enhanced from Rs.10.00 Cr)	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Reduced from Rs.10 Cr)	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	80.00 (Enhanced from Rs.22.29 Cr)	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE A1 (Reaffirmed)
Proposed non-fund based facility	Not Applicable	Not Applicable	Not Applicable	94.79	ACUITE A1 (Reaffirmed)

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