

Press Release

Carbon Resources Private Limited

March 31, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The rating on CRPL takes into account the established position of the company in the carbon electrode industry in Eastern India. The rating continues to derive comfort from the consistent improvement in the business risk profile of the company driven by growth in revenue and backward integration in operations. Moreover, the rating also factors in the robust financial risk profile of the company marked by healthy networth, comfortable gearing and strong debt protection metrics. These strengths are partly offset by the working capital intensity in CRPL's operations and the cyclical in the end user industries.

About the company

Carbon Resources Private Limited (CRPL), a Kolkata based company, was incorporated in 1991 by Mr. Suresh Kumar Jalan who has an experience of three decades in the carbon electrode industry. 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, diversified into manufacturing Calcined Petroleum Coke (CPC) and Carbon Electrode Paste (CEP). 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 Giridih, Jharkhand with an installed capacity of 38000 TPA. The company has diversified into trading of manganese ore from FY2019, where they are buying manganese ore from South Africa and Australia and selling to some of their existing customers, who are ferro alloy producers.

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**

Carbon Resources Private Limited (CRPL) has a long operational track record of 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 in the metals and the electrode industries. Acuité believes that the promoters' extensive understanding and expertise in carbon products will support the company's growth plans going forward.

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

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. The company has been minimally impacted by the COVID-19 pandemic since it caters to end user

industries where production processes need continuity 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 their key raw material, petroleum coke, from the major oil refineries. Acuité believes that CRPL's long and healthy relationships with suppliers and reputed customers will continue to strengthen its business position.

- **Strong business risk profile**

CRPL has achieved revenues of Rs.455.80 Cr in FY2020 as compared to revenues of Rs.443.38 Cr in FY2019 and Rs.229.62 Cr in FY2018, thereby registering a 2 year CAGR of 41 per cent. The company has achieved revenues of around Rs.708 Cr till February 2021 (Provisional). The sharp growth in top line in FY2019 had been on account of significant increase in the demand and price of a special grade of CPC for the graphite electrode industry. The introduction of trading activities has further led to a turnover growth in FY'20 and FY'21 (provisional). The company has generated revenue of Rs.150 Cr from trading segment in FY2020 and Rs.488 Cr from this segment till February 2021 (Provisional). Acuité believes that going forward, the revenue is expected to increase further on account of the commencement of operations of the new plant in Bobbili (Andhra Pradesh) for CEP segment. The operating margin had sharply increased to 30.84 per cent in FY2019 from 15.16 per cent in FY2018. The improvement in profitability had been primarily on account of the significant improvement in realisations without corresponding rise in the raw material cost. However, the operating margins have moderated to 14.70 per cent in FY 2020 as compared to 15.16 per cent in FY2018, due to lower trading margins at approximately 2.5-3 per cent. While the manufacturing margins have increased in FY2020 on account of backward integration, the increased revenue contribution from trading business expected to lead to operating margins settling down at 7 per cent to 8 per cent levels.

- **Robust financial risk profile**

The company's robust financial risk profile is marked by healthy networth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.244.21 Cr as on March 31, 2020 from Rs.179.44 Cr as on March 31, 2019 due to accretion of profits. The company has negligible debt with a very low Debt to Equity ratio stood at 0.04 as on March 31, 2020. The debt of Rs.10.69 Cr mainly consists of long term debt of Rs.1.12 Cr, working capital borrowing of Rs.5.43 Cr, current maturity of term loan of Rs.0.91 Cr and unsecured loan of Rs.3.23 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.31 times as on March 31, 2020 as against 0.14 times as on March 31, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 28.94 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 19.52 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 6.48 times as on March 31, 2020. Acuité believes that the financial risk profile of the company will remain healthy over the medium term backed by steady accruals and no major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 156 days as on March 31, 2020 as compared to 94 days as on March 31, 2019. The high GCA days are partly on account of moderate level of other current assets arising fromto balance with Government authorities and MAT credit entitlement. The debtor period is moderate at 53 days as on March 31, 2020 as compared to 29 days as on March 31, 2019. The increase in debtor days is primarily due to introduction of trading business in FY2020. However, the inventory holding is comfortable at 27 days as on March 31, 2020 as compared to 32 days as on 31st March 2019. Going forward, Acuité believes that the operations would remain working capital intensive mainly due to high other current asset level and moderate debtors' level.

Rating Sensitivity

- Sustainable revenue growth along with steady operating margins
- Any deterioration in working capital cycle

Material Covenant

None

Liquidity Profile: Strong

The company's liquidity is strong marked by net cash accruals of Rs.69.27 Cr as on March 31, 2020 as against long term debt repayment of Rs. 1.14 Cr over the same period. The current ratio stood comfortable at 3.39 times as on March 31, 2020. The cash and bank balances of the company stood at Rs.10.39 Cr as on March 31, 2020 as compared to Rs.0.29 Cr as on March 31, 2019. The company has neither availed any loan moratorium nor applied for any additional Covid loan. The fund based limit remains utilised at only 2 per cent over the five months ended January 2021. However, the working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 156 days as on March 31, 2020 as compared to 94 days as on March 31, 2019. Acuité believes that the company will maintain strong liquidity position due to steady accruals and no major debt funded capex plans.

Outlook: Stable

Acuité believes that the outlook on CRPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of its operations and strong business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	455.80	443.38
PAT	Rs. Cr.	64.78	126.84
PAT Margin	(%)	14.21	28.61
Total Debt/Tangible Net Worth	Times	0.04	0.06
PBDIT/Interest	Times	28.94	64.20

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Long Term	20.00 (Enhanced from Rs.5.00 Cr)	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Long Term	5.00 (Enhanced from Rs.2.00 Cr)	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Long Term	20.00 (Enhanced from Rs.5.00 Cr)	ACUITE A/Stable (Reaffirmed)

29-Jun-2020	Cash Credit	Short Term	10.00	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Short Term	25.00	ACUITE A/Stable (Reaffirmed)
	Proposed fund based facility	Short Term	20.00	ACUITE A/Stable (Reaffirmed)
	Letter of Credit	Short Term	30.00 (Enhanced from Rs.10.00 Cr)	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	7.00 (Reduced from Rs.10 Cr)	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	80.00 (Enhanced from Rs.22.29 Cr)	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	27.50	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	0.76	ACUITE A1 (Reaffirmed)
	Proposed non-fund based facility	Short Term	94.79	ACUITE A1 (Reaffirmed)
04-Jun-2020	Cash Credit	Long Term	0.20 (Reduced from Rs.25.50 Cr)	ACUITE A/Stable (Upgraded from 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	24.00	ACUITE A-/Positive (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- (Withdrawn)
	Proposed Long Term Loans	Long Term	8.15	ACUITE A- (Withdrawn)
	Letter of credit	Long Term	27.60	ACUITE A2+ (Re-affirmed)
	Bank guarantee/Letter of Guarantee	Short Term	0.90	ACUITE A2+ (Re-affirmed)
	Proposed	Short Term	0.50	ACUITE A2+ (Withdrawn)
	Letter of credit	Short Term	2.75	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	35.50	ACUITE A-/Positive (Reaffirmed)
	Term Loans	Long Term	8.15	ACUITE A-

20-Dec-2018				(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	10.00	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	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)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	80.00	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)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	29.79	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1 (Reaffirmed)

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About Acuité Ratings & Research

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