Press Release

Clean Coal Enterprises Private Limited

May 31, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE A / Outlook: Stable
Short Term Rating	ACUITE A1

** Refer Annexure for details*

Rating Rationale

Acuité 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)** on the Rs. 25.00 crore bank facilities of Clean Coal Enterprises Private Limited (CCEPL). The outlook is **'Stable'**.

Korba-based CCEPL was incorporated in 2003. It was acquired by Hind Group in fiscal 2011. CCEPL is led by Mr Pawan Kumar Agrawal and Mr. Satish Kumar Agrawal. It beneficiates non-coking coal based on GCV requirement of the customers like power generating, steel and cement industries. The company also trades in reject coal. The company has a coal washing capacity of 1.92 MTPA as on 31 March, 2019. CCEPL started commercial production from its plant in the second quarter of 2015-16.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Hind Energy and Coal Benefication (India) Limited (HECBIL), Clean Coal Enterprises Private Limited (CCEPL), Radiant Coal Benefication Private Limited (RCBPL), Earth Mineral Company Limited (EMCL) and Hind Multi Services Private Limited (HMSPL), herein after referred to as the Hind Group (HG). The consolidation is in the view of similar line of business.

Key Rating Drivers

Strengths

- **Experienced management coupled with an established presence in the coal industry**

  The Hind Group incorporated in 2005 with the incorporation of its flagship company, HECBIL. Ever since, the group has expanded their operations and is currently engaged in the business of coal washing, coal liasoning, coal transportation and coal trading. The group has incorporated 5 companies with a collective washing capacity of 18 MTPA. The group has also started coal trading from the rejects acquired through washing. This has helped the group in improving their scale of operations and increasing their margins. From operations ranging over a decade, the group has established itself in the coal industry as one of the prominent private sector players by working for reputed clients in the private and public sector such as Rajasthan Rajya Vidyut Utpadan Nigam Limited, Vedanta Limited, Gujarat State Electricity Corporation Limited, Nabha Power Limited and TATA Power Company Limited among others.

  Acuité believes that experienced management and established presence in the coal industry will help the group in improving their business risk profile over the medium term.

- **High entry barriers**

  The coal beneficiation business in India is highly regulated and falls under the purview of Ministry of Coal, Government of India as well as Ministry of Environment, Forest and Climate Change, Government of India. Such high level of regulation from multiple government authorities creates entry barriers for new players. This provides an advantage to the existing players by keeping the competition low.Hind Group currently has the second largest coal washery in India. With limited number of companies present in the coal washeries business, Acuité believes the existing players in the market will benefit from its established presence.

- **Logistical advantage**

Cost and efficiency of logistical expenses play a key role in the coal beneficiation business. HG has continuously invested and built their own logistical infrastructure for optimum utilization of available capacity. The group has 4 railway sidings (2 in HECBIL, 1 in RCBPL and 1 in EMCL) used to transport coal to the coal washery. Having an owned railway siding is beneficial to the group as it provides an opportunity for delivery of coal in a time bound manner and save major cost of logistics thereby improving its operating margins. Further, the group also owns and leases a large fleet of 300 long vehicles comprising of trailers and pay loaders for coal transportation throughout the country.

- **Healthy financial risk profile and profitability**

HG has a healthy financial risk profile marked by net worth of Rs.330.25 crore as on 31March, 2018 as against Rs. 246.05 crore as on 31 March, 2017. The gearing (debt-equity) stood moderate at 0.38 times as on 31 March, 2018 as against 0.31 times as on 31 March, 2017. The total outstanding debt of Rs.125.11crore as on 31 March, 2018 comprises Rs.0.60 crore of unsecured loans from promoters and Rs.87.82crore as working capital borrowings from the bank. The Interest Coverage Ratio (ICR) stood at 19.98 times in FY2018 as against 12.17 times in FY2017. HG's Return on Capital Employed (RoCE) stood at an average of 26.48 per cent for FY2018. The NCA/TD stood at 0.71 times in FY2018 compared to 0.89 times in FY2017. Further, the total outside liabilities to tangible net worth (TOL/TNW) stood at 0.64 times as on 31March, 2018 as against 0.84 times as on 31March, 2017.

The profitability of the group has remained healthy in the past three years ending 2018. In FY2018, operating margins improved to 19.42 percent as compared to 12.18 percent in FY2017. This has essentially been fuelled by increasing margins in the coal trading business. Revenue for FY2018 grew by 21.07 percent to Rs.653.11 crore as compared to Rs.539.47 crore in FY2017. Net Cash Accrual (NCA) margins improved to 13.67 percent for FY2018 as against 12.44 percent for FY2017.

Acuité believes that HG will continue to maintain a healthy financial risk profile based on healthy cash accruals and no major repayment obligations.

Weaknesses

- **End user sector challenges**

Coal washed, transported and traded by HG find their end use by companies involved in power generation, cement manufacturing and steel and metal plants. The consumers that HG caters to are also under high regulation from the government.

Increasing cost of supply as against environmentally friendly and economically attractive options of solar and wind power has led to significant reduction in energy consumption from power plants, putting the power plants under financial distress. Loss of supply linkages between the cement industry and coal availability has been a developing challenge in India over lack of infrastructure. Further, capital intensive steel and metal plants have been under low potential utilization and have been experiencing reduced productivity amidst a global competition and slowdown in domestic economic conditions. Any policy changes affecting the highly regulated coal industry or its end users will impact the financial risk profile of HG. The ability of HG to grow in such conditions and maintain its profitability will be key monitorable in the future.

Liquidity Position

CCEPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.89 crore to Rs.20.91 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.45 crore – Rs.1.50 crore over the same period. The cash accruals of the company are estimated to remain around Rs.20.00 crore – Rs.45.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs.0.50 crore – Rs.1.50 crore. The company’s operations are moderately working capital intensive as marked by gross current asset (GCA) days of 124 in FY2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the group remains utilized at 65 percent during the last 12 months period ended April 2019. The company maintains unencumbered cash and bank balances of Rs.0.33 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.20 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuité believes that Hind Group will maintain a 'Stable' outlook over the medium term on account of its established business profile driven by its enhanced coal capacity, strong customer profile and healthy financial performance. The outlook may be revised to 'Positive' in case of significant improvement in revenues and accruals while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the business profile or increased exposure to real estate through group companies.

About the Group

The Hind Group comprises of 5 companies, namely Hind Energy and Coal Benefication (India) Limited (HECBIL), Clean Coal Enterprises Private Limited (CCEPL), Radiant Coal Benefication Private Limited (RCBPL), Earth Mineral Company Limited (EMCL) and Hind Multi Services Private Limited (HMSPL). It was started by Mr Pawan Kumar Agrawal, Mr. Rajeev Agrawal, Mr. Sanjay Agrawal and Mr. Satish Kumar Agrawal. The group is engaged in the business of coal benefication, coal transportation and coal trading. The group came into existence with the incorporation of HECBIL at Bilaspur in 2005. HECBIL currently has a capacity of 7.44 MTPA. CCEPL was incorporated in 2003 as a Greenfield project and was later acquired by Hind Group in 2011. It currently has capacity of 1.92 MTPA. RCBPL was incorporated in 2015 as a Greenfield project by the Hind Group with a capacity of 1.44 MTPA. EMCL and HMSPL began their commercial operations from May 2018 and have a capacity of 4.00 MTPA and 3.20 MTPA respectively. The group trades in coal from rejects obtained after the benefication process. The group has their own railway siding for timely procurement and transportation of coal.

About the Rated Group - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	653.11	539.47	537.33
EBITDA	Rs. Cr.	126.84	65.70	53.54
PAT	Rs. Cr.	77.91	26.14	18.90
EBITDA Margin	(%)	19.42	12.18	9.96
PAT Margin	(%)	11.93	4.85	3.52
ROCE	(%)	32.08	20.73	16.94
Total Debt/Tangible Net Worth	Times	0.38	0.31	0.36
PBDIT/Interest	Times	18.60	7.75	3.97
Total Debt/PBDIT	Times	0.92	0.74	1.35
Gross Current Assets (Days)	Days	135	170	155

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.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
14-Mar-2018	Cash Credit	Long Term	15.00	ACUITE A / Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A1 / Stable (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE A / Stable (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	15.00	ACUITE A / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00`	ACUITE A / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Viren Rangparia Analyst - Rating Operations Tel: 02249294053 viren.rangparia@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.