

Press Release

Mahavir Coal Washeries Private Limited

July 29, 2021

Rating Downgraded, Assigned & Withdrawn



Total Bank Facilities Rated*	Rs. 66.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A3+ (Downgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2**' (read as **ACUITE A two**)' on the Rs.66.00 crore of bank facilities of Mahavir Coal Washeries Private Limited. The outlook is '**Stable**'.

The rating downgrade is driven by significant deterioration in their business risk profile marked by continuous decline in revenue of the company in the past two years till FY'21 (Prov) along with significant decrease in profitability margin during the period. The revenue of the company has significantly declined by ~35 per cent in FY2021 (Prov.) from the previous year. Further, the revenue has also declined by ~18 per cent in FY2020 from FY2019, along with sharp fall in operating profitability margin to 5.81 per cent in FY2021 (Prov.) as against of 12.41 per cent in FY2020. The rating action also takes into account the continuous deterioration in working capital management of the company marked by continuous elongation in gross current asset (GCA) days to 155 days in FY2021 (Prov.) as compared to 100 days in the previous year. The ratings, however, continue to favorably factor in the long experience of the promoters in coal washery business, established track record of operation and healthy financial risk profile.

The rating continues to reflect the long standing relationship with their customer and suppliers along with moderate order book position. The rating also reflects adequate liquidity position during the period and logistical advantages in the coal beneficiation business. However, these strengths are partially offset by the vulnerability of margins to the fluctuations in raw material prices.

About the company

Mahavir Coal Washeries Private limited (MCWPL) was incorporated in 2011 by Mr. Vinod Kumar Jain, Mr. Vishal Kumar Jain, Mr. Arvind Kumar Jain and Mr. Pramod Jain. MCWPL is a Chhattisgarh based company engaged in trading of coal including coal washery and logistic services. The company has two washeries in Baloda (Chhattisgarh) along with railway siding and another washery in Balmudi (Chhattisgarh) with an installed capacity of 95000 MTPA each. The company mainly procures coal through e-auction from South Eastern Coalfields Limited.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of MCWPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

The directors of the company Mr. Vinod Kumar Jain, Mr. Vishal Kumar Jain, Mr. Arvind Kumar Jain and Mr. Pramod Jain have experience of more than a decade in the business of coal washeries through other group companies. The long-standing experience of the directors has helped the company to establish comfortable relationship with their customers such as Adani Power Maharashtra Limited, Birla Corporation Limited, JK Lakshmi Cement Ltd, Hindalco Industries Limited among others as well as suppliers such as South Eastern Coalfields Limited, MP Power Generating Company Limited among others.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.105.98 crore in FY 2021 (Prov.) as compared to Rs 104.53 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuite has included Rs.3.51 crore of unsecured loan as part of networth as the same amount is subordinated with bank debt. The gearing of the company has marginally improved and stood comfortable at 0.16 times as on March 31, 2021 (Prov.) when compared to 0.19 times as on March 31, 2020. Though there has been moderation in the debt protection parameters due to dip in profitability, they still remain at healthy levels. Interest coverage ratio (ICR) stood at 4.53 times in FY2021 (Prov.) as against 10.30 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood comfortable at 1.27 times in FY2021 (Prov.) as compared to 2.30 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.32 times in FY2021 (Prov.) as compared to 0.92 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near term.

Logistical advantages

Cost and efficiency of logistical expenses play a key role in the coal beneficiation business. MCWPL has continuously invested and built their logistical infrastructure for optimum utilization of available capacity. The company has 1 railway siding in Baloda used to transport coal to the coal washery. Having a railway siding is beneficial to the company 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 company also owns a large fleet of 150 trucks for coal transportation throughout the country.

Weaknesses

Declining trend of revenue coupled with moderate profitability margin

The revenue of the company has declined to Rs.128.84 crore in FY2021 (Prov.) as compared to Rs.201.10 crore in the previous year. Further the revenue of the company has also declined to Rs.201.10 crore in FY2020 as compared to Rs.246.39 crore in FY2019. This significant decline in top line is mainly due to the impact of outbreak of covid-19 and nation-wide lock down. Further, the major industry to which the company caters is power sector which was also adversely impacted in H1FY2021, resulting into lower capacity utilization during the period. The company has earned Rs.45.00 crore till 15th July 2021 (Prov.). The company has an unexecuted order book of Rs.167.77 crore as on July 2021 which provides moderate revenue visibility over the medium term.

The operating profitability margin of the company has declined to 5.81 per cent in FY21 (Prov.) as compared to 12.41 per cent in the previous year. This sharp decrease in profitability margin is due to the outbreak of covid-19 and nation-wide lockdown during the period which resulted from the fixed overhead expenses. The net profitability margin of the company has also declined to 1.13 per cent in FY2021 (Prov.) as compared to 6.74 per cent in FY2020. Going forward, Acuite believes that the increase in turnover levels coupled with improvement in the profitability would be a key rating sensitivity.

Working capital intensive nature of operation

The working capital management of the company is marked by high gross current asset (GCA) days of 155 days in FY2021 (Prov.) as compared to 100 days in FY2020. This significant increase in GCA days is on account of increase in debtor days to 155 days in FY2021 (Prov.) as compared to 100 days in the previous year. The inventory holding period of the company stood comfortable at 16 days in FY2021 (Prov.) as compared to 04 days in the previous year. Moreover, the working capital limit has been utilized ~77 per cent for the last six months ended June 2021. Acuite believes any further elongation in working capital would further impact the credit profile of the company.

Rating Sensitivity

- Scaling up of operation and increase in profitability margin
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.5.62 crore as against Rs.4.08 crore long term debt obligation during FY2021 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 18.91 crore to Rs. 24.68 crore during 2022-24 as against Rs.2.90 crore in FY2023 and in FY2024 of long term debt obligations respectively. The current ratio of the company stood comfortable at 2.05 times in FY2021 (Prov.). The working capital management of the company is marked by high Gross Current Asset (GCA) days of 155 days in FY2021 (Prov.). The bank limit of the company has been ~77 per cent utilized during the last six months ended in June 2021. Moreover, the company has availed the covid emergency fund of Rs. 3.52 crore. The said loan has to be repaid over a period of 4 years including 1 year of moratorium. Moreover, the company has also availed the loan moratorium till August 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that the company will continue to benefit over the medium term from its management's extensive experience and established position in coal trading and beneficiation. The outlook may be revised to 'Positive' if there is a substantial increase in the company's revenues along with significant improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in profitability margins, or a further elongation in its working capital.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	128.84	201.10
PAT	Rs. Cr.	1.45	13.56
PAT Margin	(%)	1.13	6.74
Total Debt/Tangible Net Worth	Times	0.16	0.19
PBDIT/Interest	Times	4.53	10.30

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.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
06-May-2020	Cash Credit	Long Term	7.50	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB+/Stable (Assigned)
	Proposed Long Term Facility	Long Term	2.00	ACUITE BBB+/Stable (Assigned)

	Bank Guarantee	Short Term	18.30	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	14.00	ACUITE A2 (Assigned)
	Proposed Short Term Facility	Short Term	19.20	ACUITE A2 (Assigned)

***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	7.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB (Downgraded & Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB (Downgraded & Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Downgraded)
Working Capital Demand Loan - GECL	Not Applicable	Not Applicable	Not Applicable	2.71	ACUITE BBB/Stable (Assigned)
Working Capital Demand Loan - GECL	Not Applicable	Not Applicable	Not Applicable	0.81	ACUITE BBB/Stable (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	13.98	ACUITE BBB/Stable (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	18.30	ACUITE A3+ (Downgraded & Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Assigned)
Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	19.20	ACUITE A3+ (Downgraded & Withdrawn)

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About Acuité Ratings & Research:

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