

Press Release

Adam & Coal Resources Private Limited

May 21, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 113.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE BBB**' (**read as ACUITE triple 'B'**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A 'Three plus'**) on the Rs.113.00 crore bank facilities of Adam & Coal Resources Private Limited (ACRPL). The outlook is '**Stable**'.

About the Company

Established in 2004 and based in Chennai (Tamil Nadu), ACRPL is promoted by Mr. Tony Adam (Managing Director). ACRPL is into the business of importing and trading of steaming non-coking coal and green calcined pet coke for the customers in India. ACRPL has a wholly owned subsidiary company, Adcoal Resources PTE Limited (ARPL) based in Singapore for its global trading operations.

Analytical Approach

Acuité has consolidated the financial and business risk profiles of Adam & Coal Resources Private Limited (ACRPL) with its subsidiary, Adcoal Resources PTE Limited (ARPL) and hereinafter referred to as Adcoal group on account of their common management and brand name, strong operational and financial linkages of the business segments and the nature of business to arrive at this rating. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Promoters extensive experience in logistics industry; established track record of operations in importing and trading of coal**

Mr. Tony Adam (Managing Director), promoter of Adcoal group has been part of the day-to-day operations of the group since its inception in 2004. Prior to his venture into import and trading of non-coking coal and pet-coke, Mr. Adam was the Managing Director of Sical Logistics Limited for more than a decade and developed a network of shippers and users of coal. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the group include reputed customer namely The India Cements Limited (ICL), amongst others. On the back of the stable and repeat orders by its key customers, the revenues have seen a compound annual growth rate (CAGR) of about 9.36 per cent over the past 2 years through FY2020. The operating income has deteriorated to Rs.323.85 Cr. in FY2020 from Rs.475.97 Cr. in FY2019 on account of fluctuation in price of coal in the market albeit the quantity of coal imported remained stable, further, the group has achieved revenues of around Rs.300.00 Cr for FY2021(Prov). Acuité believes that Adcoal group will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

- **Healthy financial risk profile**

Adcoal group's financial risk profile is healthy, marked by a healthy networth, low gearing and improving debt protection metrics. The EBITDA margins of the group improved to 1.62 per cent in FY2020 against 0.74 per cent in FY2019 on account of reduction in cost incurred to procure the coal for trading activity. The healthy profitability levels vis-à-vis reduction in interest obligations due to less reliance on cash credit facility have led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.84 times and 3.01 times respectively in FY2020 as against 2.30 and 1.69 times respectively in the previous year. The company receives interest from India Cements Limited (ICL) as a reimbursement for the usance interest charged on the letter of credit issued for the import of coal for ICL.

The net worth of the group stood at Rs.102.66 Cr. as on 31 March, 2020 as against Rs.96.36 Cr. as on 31 March, 2019. This improvement is on the account of healthy accretion to reserves. The gearing level (debt-equity) has improved and stood at 0.01 times as on 31 March, 2020 as against 0.04 times as on 31 March, 2019, the improvement is on the account of payment of unsecured loans from the promoters of Rs.2.75 Cr. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 0.74 times as on 31 March, 2020 against 0.58 times in previous year. Improvement in TOL/TNW is on account of decrease in trade payable related to the trading activity which stood at Rs.56.50 Cr. as on 31 March 2020 against Rs.97.58Cr. in previous year. The total debt of Rs.0.81 Cr. as on 31 March, 2020 consist of long-term debt of Rs.0.52 Cr. availed for vehicle loan, short term debt of Rs.0.22 Cr. NCA/TD (Net cash accruals to total debt) has improved to 8.28 times in FY2020 as against 0.84 times in FY2019. Acuite expects the financial risk profile to remain healthy over the medium term on account of healthy capital structure and stable operations of the group.

- **Efficient working capital management**

Adcoal group's operations are efficient in working capital management as reflected by its gross current asset (GCA) days of around 113 days as on March 31, 2020. The group has a negative working capital cycle on account of absence of holding any inventory and presence of back-to-back payment terms with creditor and debtors. The risk of volatility in price of coal is mitigated by absence of any open inventory and prior settlement of price between the buyer and the seller. Moreover, the foreign exchange risk associated with the import of coal is managed by presence of hedging policies adopted by the company. The current ratio stood at 1.75 times as on 31 March, 2020 against 1.39 times in previous year. Adcoal group's working capital limits over the last six-month period through March 2021, was utilized at an average of 15 per cent, while the peak utilization was high at around 90 per cent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of no open inventory maintained by the company and presence of back-to-back payment terms with creditor and debtors.

Weaknesses

- **High customer, supplier and geographical concentration risk in the revenue profile**

Adcoal have been successfully able cater the demand of imported coal by The India Cements Private Limited (ICL) and has a long term relationship since its inception. Acuité believes that The India Cements Private Limited (ICL) contributing majorly towards the total imports and more than 70 per cent towards the total sales of the group, there exists high customer and geographical concentration risk on the revenue profile of the group. Further, the coal is imported from limited number of suppliers based on the requirement of the customer, with single supplier contributing more than 40 per cent of the total purchases and leading to high supplier concentration risk on the business profile.

- **Linkage of Business Risk Profile with India Cements Limited (ICL)**

Adcoal contributes to around 60 per cent of total imported coal requirement of The India Cements Limited (ICL). Drivers such as change in management, corporate policies, cost cutting measures, product mix and demand of the products offered by the company could have impact on business risk profile of Adcoal. Acuité believes that the group's business profile is linked to an extent with ICL, and further can impact the revenue and liquidity profile of Adcoal in terms of customer concentration risk.

- **Presence of intense competition in the sector; impact of change in regulations**

As per the present Import policy, coal can be freely imported under the Open General License by the consumers themselves considering their needs based on their commercial prudence, thus enabling entry of many players into the sector and leading to intense competition as evident from the low profitability margins. Acuité believes that any change in regulations and policies could have an adverse impact on the business risk profile of the group and expects the profitability position of the firm to remain modest over the medium term.

Liquidity Position: Adequate

Adcoal group's liquidity is adequate marked by moderate level of unencumbered cash and bank balance and modest generation of net cash accruals in FY2020 to its maturing debt obligations. The group has generated cash accruals in the range of Rs.2.80-6.71 Cr. during last three years ending FY2020 as against its long term debt obligations of Rs.0.07-0.26 Cr. for the same period. The group's working capital is efficient as evident from Gross Current Asset (GCA) of 113 days as on March, 2020 as compared to 107 days as on March, 2019. The group is having a negative working capital cycle and the current ratio stood at 1.75 times as on 31 March 31 2020 with the average fund based limit remains utilized at 15 per cent over the 6 months ended March, 2021. The group maintains moderate level of unencumbered cash and bank balances of Rs.2.80 Cr. and margin bank balance of Rs.31.49 Cr. as on 31 March 31 2020. Acuité believes that the liquidity of the group is likely to remain stable over the medium term. The group is expected to generate NCA in range of Rs.5.42-6.02 Cr. against maturing debt obligations in range of Rs.0.06-0.07 Cr. over the medium term.

Rating Sensitivities

Positive

- Increase in sustainable scale of operations and improvement in realization per tonne with diversification in customer base.
- Sustainable improvement in Profitability, Leverage and Solvency position of the group.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group.
- Any weakening of financial risk profile of the group.

Outlook: Stable

Acuité believes that Adcoal group will continue to benefit over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of increasing repetitive orders from well diversified customer base and improvement in realization per tonne leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case Adcoal group registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	323.85	475.97
PAT	Rs. Cr.	6.02	2.43
PAT Margin	(%)	1.86	0.51
Total Debt/Tangible Net Worth	Times	0.01	0.04
PBDIT/Interest	Times	3.84	2.30

For the period 12MFY2021 (Prov), Adcoal group, has reported a profit before tax (PBT) of Rs.6.92 Cr. on total operating income of Rs.308.61 Cr.

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Trading Sector - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	3.00	ACUITE BBB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A3+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Shivam Agarwal Analyst - Rating Operations Tel: 040-4004 2327 shivam.agarwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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