

## Press Release

Adam & Coal Resources Private Limited

July 19, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	110.00	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	3.00	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	113.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed 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**'.

The rating reaffirmed reflects the extensive experience of its promoter in the coal trading business resulting in healthy and sustained revenue growth, healthy financial profile and moderate working capital requirement. These strengths are partially offset by susceptibility of operating profit margin to volatility in coal prices and intense competition, exposure to regulatory changes in coal-exporting countries and exposure to counterparty risks.

### About the Company

Incorporated in September 2004, Adam and Coal Resources Private Limited (ACRPL) is promoted by Mr. Tony Adam, the Managing Director. ACRPL is engaged in trading of steam coal and pet coke, wherein it imports coal from Singapore, Dubai, Indonesia, USA, among other countries and caters to customers located in India, primarily in the cement and the power industries. The company has a wholly-owned subsidiary, Adcoal Resources PTE Limited (ARPL), in Singapore, which is engaged in the same business.

### Analytical Approach

Acuite 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

#### **Promoter's extensive experience in logistics industry; established track record of operations in importing and trading of coal**

Adcoal group's has been in the coal trading business since 2004, 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. Presence of more than two decades in the port based coal and pet coke trading segment enabled the promoter to establish healthy relationships with customers. The key customers of the group include reputed customer namely The India Cements Limited (ICL). 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 11.56 per cent over the past 3 years through FY2022. The group reported an operating income grew by ~40% to Rs. Rs.402 Cr. in FY2022 (Prov) from Rs.286.44 Cr. in FY2021. Acuité believes that Adcoal group will continue to derive benefits from its vast experience of its promoters and the established relationships with its key customers will sustain its revenue over the medium term.

#### **Increasing scale of operations along with marginal improvement in profitability**

The total income achieved by Adcoal group's in FY22 (Provisional) grew at a healthy pace of ~40% to Rs. 402 cr from Rs. 286.44 cr in FY20 due to the increase in the income has been on account of increased demand from existing customers. The EBITDA and PAT margins, although improving, remained low at 1.50% and 1.38% respectively, in FY22 (provisional) against 1.25 % and 1.36% in FY21. Increase in profitability margins was mainly attributable to reduction in the operational expenses and other expenses including port handling charges. The ROCE was 7.36% in FY22 (provisional) (FY21: 7.24 %). Acuité believes that Adcoal group continued growth of operations and improvement of profitability levels, remain key rating sensitivity factors.

#### **Healthy financial risk profile**

Adcoal group's financial risk profile is healthy, marked by a healthy networth, conservative capital structure and comfortable debt protection metrics. The net worth of the group stood at Rs.112.02 Cr. as on 31 March, 2022 (provisional) as against Rs.106.39 Cr as on 31 March, 2021. This improvement is on the account of healthy accretion to reserves. The gearing (debt/Equity) and TOL/TNW (Total outside liabilities/Total net worth) level (debt-equity) stood at 0.09 times and 1.13 times as on 31 March, 2022 (provisional) vis-à-vis 0.08 times and 1.02 times as on 31 March, 2021. Its Debt- EBITDA stood healthy at 1.08 times as on 31 March, 2022 (provisional) vis-à-vis 0.97 times as on 31 March, 2021. The group has comfortable debt protection metrics marked by its interest coverage ratio (ICR) and NCA/TD (Net cash accruals to total debt) stood at 3.01 times and 0.60 times respectively in FY2022 (provisional) vis-à-vis 3.82 and 0.55 times respectively in FY2021. 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.

### Weaknesses

#### **Moderate working capital requirement**

Adcoal group's working capital management has been moderate as reflected in gross current assets (GCA) days of around 178 days as on March 31, 2022 (provisional) as against 234 days as on March 31, 2021. The group's working capital cycle is efficient 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. Adcoal group's working capital limits over the last six-month period through June, 2022, was utilized at an average of 31 per cent. Acuite expects the operations of the company to remain working capital intensive over the medium.

### **Inherent risk associated with the trading business and low profitability margins**

The company is exposed to the risks associated with the trading nature of business like inherently low profitability margins, availability of the traded commodity in desired quantity and quality etc. The groups also exposed to the competition in imported coal trading business due to low entry barriers. The EBITDA and PAT margins, although improving, remained low at 1.50% and 1.38% respectively, in FY22 (provisional) against 1.25 % and 1.36% in FY21. Acuite believes that due to no value addition and low bargaining power, the margins are expected to remain in the similar range over the medium term.

### **High customer concentration risks**

Adcoal group's is exposed to high customer concentration, while the company enjoys a long standing relationship with its key customer India Cements, (which accounts for almost 100% of revenues). The company has informed that it will engage in the trading of imported coal only if it is 100 % order-backed. Any decline in offtake from its customers will have a huge impact on the company's sales volume. Acuite believes that, however, the customer concentration is mitigated to some extent by the established relationship of the company with India Cements limited since its inception.

### **Competitive and regulated industry**

Coal being a commodity has demonstrated significant volatility in its prices in the past. Imported coal prices are also governed by global demand-supply factors. The coal trading and transport industry is highly fragmented, with a large number of players, due to the low entry barriers. This has restricted the growth in the company's margins in these segments. Also, the industry is highly regulated, with the ministry of coal governing its operations in the country. Any adverse regulations would impact the operations of the company. Adcoal groups may face challenges if receivables exceed usance of letters of credit. Although the transaction size per customer is controlled, exposure to sizeable counterparty risks should persist over the medium term. Furthermore, the business risk profile remains exposed to fluctuations in coal prices and the regulatory policies of the government. 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. Acuite 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.

### **ESG Factors Relevant for Rating**

Not Applicable

### **Rating Sensitivities**

- Substantial and sustainable increase in revenue and profitability
- Significant improvement in the working capital cycle
- Any deterioration in working capital cycle and financial risk profile and liquidity profile of the group

### **Material covenants**

None

### **Liquidity Position**

The Group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.4.50 to 6.70 Cr during the last three years through 2020-21, while its maturing debt obligations were in the range of Rs.0.15 to 0.80 over the same period. The cash accruals of the group are estimated to remain around Rs.6.80 Cr to 7.80 Cr during 2023-25 while its repayment obligation are estimated to be around Rs. 0.850-1.00 Cr during the same period. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 178 in as on March 31, 2022. This has led to lower reliance on working capital borrowings, Bank limit utilization is moderate at 31% for the 12 months through June 2022 (fund based limit of Rs 3.00 crore) and Letter of credit utilization average at 45% (Rs.110 Cr) during same period. Liquidity is also supported by the back to back bills discounting against LC arrangement with India Cements meeting the letter of credit payments on time. Current ratio is comfortable at 1.70 times and it has unencumbered cash and equivalents of Rs 43.03 Cr as on March 31, 2022 (provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

### Outlook: Stable

Acuite 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	402.00	286.44
PAT	Rs. Cr.	5.54	3.90
PAT Margin	(%)	1.38	1.36
Total Debt/Tangible Net Worth	Times	0.09	0.08
PBDIT/Interest	Times	3.01	3.82

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

ACRPL has not cooperated with ICRA Limited which has classified it as issuer not cooperative vide release dated January 31, 2022. The reason provided by ICRA Limited is non-furnishing of information for monitoring of ratings.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

**Note on complexity levels of the rated instrument**  
<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 May 2021	Letter of Credit	Short Term	110.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB   Stable (Assigned)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB   Stable   Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A3+   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Bhavani sankar Oruganti Assistant Manager-Rating Operations Tel: 022-49294065 <a href="mailto:bhavanisankar.oruganti@acuite.in">bhavanisankar.oruganti@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.