

Press Release

National Enterprises

September 30, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.165.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 165.00 Cr bank facilities of National Enterprises (NE). The outlook is '**Stable**'.

The rating on NE takes into cognizance the improving business risk profile of the firm as reflected from its increasing revenue trend coupled with healthy profitability buoyed by resumption of operations of all the three mines. Further, it is also supported by the management's long track record in the sector and favorable demand scenario. The rating also draws comfort from the adequate liquidity position of the firm. These strengths are however, partly offset by the working capital intensive nature of operations of the firm and proprietorship nature of constitution buoyed by risk of withdrawal of capital.

About the firm

Established in 1974, National Enterprises (NE) is primarily engaged in mining business. It is a proprietary firm with Mr. Charanjit Singh Grewal as the proprietor. Currently, the firm is operating three iron ore mines Raikela Mine, Sanindpur mine, Adaghat mine in the Sundergarh District of Odisha. Additionally, the firm has two wind based power generating units in Rajasthan and Tamilnadu with a capacity of 6 MW and 14.7 MW respectively.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NE to arrive at the rating.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The firm has a long operational track record in mining industry for more than three decades. The proprietor, Mr. Charanjit Singh Grewal has an experience of more than four decades in the mining industry. In addition to this, the second generation promoter Mr. Sonny Grewal are now involved with the day to day operations of the firm. Acuité believes that the long operational track record of NE and management's' extensive understanding and expertise will support the firm's growth plans going forward.

- **Improving business risk profile buoyed by resuming operations of all the mines**

The improving business risk profile of the firm is supported by significant increase in operating income and profitability margins in FY2021 as well as in the current financial year. The thrust in the revenue as well as profitability is predominantly on account of resuming operations of all the mines. Raikela mine resumed operation in January 2019. Adaghat mine started operation in March 2020 after obtaining all approvals. Sanindpur mine has got mining lease deed executed after receipt of all approvals and thereafter resumed operation in May 2021.

The firm has achieved revenues of Rs. 233.68 Cr in FY2021 (Provisional) as compared to revenues of Rs. 97.96 Cr in FY2020. Further, during the current year the firm has achieved Rs 224 Cr as on July, 2021 (Provisional) from the mining division. The operating margin stood high at 39.63 per cent in FY2021 (Provisional). The PAT margin of the firm increased to 22.06 per cent in FY2021 (Provisional). Further, the high profitability margins translated into healthy Return on Capital Employed (ROCE) of the firm, which stood at 24.81 per cent in FY2021 (Provisional) as compared to 10.75 per cent as on FY2020.

Acuité believes that the firm's business risk profile would progress further and its scale of operations would improve over the medium term backed by their domain expertise and all three mines being fully operational.

- **Moderate albeit improving financial risk profile**

The firm's moderate albeit improving financial risk profile is marked by modest networth, improving gearing and debt protection metrics. The tangible net worth of the firm improved to Rs.88.29 Cr as on March 31, 2021 (provisional) from Rs.31.19 Cr as on March 31, 2020 due to accretion of profits. Gearing of the firm stood high at 3.01 as on March 31, 2021 (provisional) as compared to 10.96 as on March 31, 2020. The debt of Rs.266.71 Cr mainly consists of long term debt of Rs.165.71 Cr, unsecured loan of Rs.1.00 Cr and current maturity of term loan of Rs.100 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.34 times as on March 31, 2021 (provisional) as against 11.51 times as on March 31, 2020. The Interest Coverage Ratio (ICR) stood at 2.39 times as on March 31, 2021 (provisional) and Debt Service Coverage Ratio (DSCR) stood at 1.04 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.20 times as on March 31, 2021 (provisional).

National Enterprise had been issued demand notice on 24th October 2017, by Hon'ble Supreme Court based on Shah Commission report on mining in Odisha. In lieu of the notice, the firm had deposited Rs. 438 Cr in December, 2018 to the Government, as a compensation for both Raikela and Sanindpur mines, to comply with the terms. The amount has been paid with proprietor's contribution of Rs.88 Cr and a term loan of Rs. 350 Cr from bank.

Acuité believes that going forward, the financial risk profile of the firm will improve backed by increased accruals and the ongoing prepayment of term loan, in absence of any debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the firm is marked by Gross Current Assets (GCA) of 262 days as on March 31, 2021 (provisional) as against 996 days as on March 31, 2020. The high GCA days are primarily on account of high other current assets due to advance income tax & statutory advances, regulatory deposits, advances to contractors. Further, the inventory holding level stood high at 102 days as on March 31, 2021 (provisional) as compared to 256 days as on March 31, 2020. However, the debtor period stood comfortable at 11 days as on March 31, 2021 (provisional) as compared to 169 days as on 31st March 2020. Going forward, Acuité believes that the working capital operations of the firm will remain at same level as evident from high level of the other current assets over the medium term.

- **Proprietorship nature of constitution**

The firm being a proprietorship concern is exposed to inherent risk of capital withdrawal by the proprietor due to its constitutional status. Any substantial withdrawals from capital account would impact the net worth and thereby the gearing levels of the firm.

Rating Sensitivity

- Sustainability in revenue growth and profitability margin
- Elongation of working capital cycle
- Improvement in capital structure

Material Covenant

None

Liquidity Profile: Adequate

The firm's liquidity is adequate marked by the improving accruals buoyed by the restart of operations in all the three mines, no such requirement of fund based working capital limit and ability to prepay the existing term loan. Further, the current ratio stood comfortable at 2.11 times as on March 31, 2021 (provisional). Moreover, the firm has free liquid investments of Rs.41.59 crore as on March 31, 2021 (provisional). The cash and bank balances of the firm stood at Rs.16.66 Cr as on March 31, 2021 (provisional) as compared to Rs.2.31 Cr as on March 31, 2020. The net cash accruals stood at Rs.53.84 Cr as on March 31, 2021 (provisional) as against long term debt repayment of Rs. 50 Cr over the same period, nevertheless the firm has made prepayment of additional Rs.30 Cr. The remaining portion was paid from the substantial amount recovered from the debtors

in the same period. Also, the firm has neither availed loan moratorium nor applied for additional Covid loan. However, the working capital intensive nature of operations of the firm is marked by Gross Current Assets (GCA) of 262 days as on March 31, 2021 (provisional) as against 996 days as on March 31, 2020. Acuité believes that going forward the liquidity position of the firm will improve significantly due to increase in accruals on account of all the mines starting operations.

Outlook: Stable

Acuité believes that the outlook on NE will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and improving business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position or further elongation in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	233.68	97.96
PAT	Rs. Cr.	51.54	(1.76)
PAT Margin	(%)	22.06	(1.80)
Total Debt/Tangible Net Worth	Times	3.02	10.96
PBDIT/Interest	Times	2.39	1.02

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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**

Lender name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Yes Bank	Term Loan	01-12-2018	9.5%	01-12-2027	165.00	ACUITE BBB/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Assistant Manager- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research

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