

Press Release

National Enterprises

April 14, 2023



Rating Upgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.10	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	114.90	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	50.10	-	-
Total Withdrawn Quantum (Rs. Cr)	114.90	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.50.10 Cr bank facilities of National Enterprises (NE). The outlook remains '**Stable**'.

Acuite has also withdrawn the rating on the Rs.114.90 Cr bank facilities of National Enterprises (NE).

The rating has been withdrawn as per Acuite's policy of withdrawal of ratings. The rating withdrawal is on account of the request received from the firm, and the NDC received from the banker since the loan availed has been repaid.

Rationale for the rating

The rating upgrade takes into cognizance the significant improvement in the business risk profile of the firm supported by substantial improvement in the operating income and high profitability margins. The rating also factors in the proprietor's extensive experience in the industry along with the five decades long track of operations of the firm. The rating further considers the strong liquidity position and the healthy financial risk profile of NE marked by relatively high networth base and healthy leverage ratios. These strengths are however, partly offset by the working capital intensive nature of operations of the firm and the proprietorship nature of constitution buoyed by risk of withdrawal of capital.

About the Firm

Established in 1974, National Enterprises (NE) is a proprietorship firm engaged in the mining business. It is headed by the proprietor Shri Charanjit Singh Grewal. The firm operates through three iron ore mines which are Raikela Mine, Sanindpur mine and Adaghat mine in Sundergarh District of Odisha. In addition, the firm has two wind based power generating unit in Rajasthan and Tamilnadu with a capacity of 6 MW and 14.7 MW respectively.

Analytical Approach

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

Key Rating Drivers

Strengths

Long track record of operations and experienced management

NE has a long operational track record of more than four decades in the mining industry and is assisted by the extensive experience of its proprietor Mr. Charanjit Singh Grewal supported by the second generation of the management, Mr. Sonny Grewal.

Acuité believes that NE will continue to benefit from the long standing operations of the firm and the experience of the management.

Sound business risk profile

The firm witnessed significant improvement in the scale of operations and achieved revenues of Rs.379.32 Cr in FY2022 as compared to Rs.233.68 Cr in FY2021, thereby, registering a y-o-y growth of 62 per cent. Moreover, till December, 2022, the firm achieved turnover of around RS.337.00 Cr (provisional). The upsurge in the operating income is on account of better demand scenario and optimal utilisation of all the three mines.

The growth in the turnover levels as against the comparatively lower percentage of expenditure led to substantial rise in the profitability margins. The operating margin improved to 59.68 per cent in FY2022 as against 47.02 per cent in FY2021. The PAT margin rose to 51.46 per cent in FY2022 as compared to 21.96 per cent in FY2021. The high profitability margins translated into healthy Return on Capital Employed (ROCE) of the firm, which stood at 58.59 per cent in FY2022 as compared to 29.76 per cent in FY2021.

Acuité believes that the scale of operations of the firm may continue to improve further owing to the firm's strong domain expertise and the adequate demand along with full-fledged operations of all the three mines, resulting in healthy profitability margins.

Healthy financial risk profile

The firm's healthy financial risk profile is marked by the relatively high networth base, low gearing and healthy debt protection metrics. The tangible net worth of the firm improved to Rs.279.39 Cr as on March 31, 2022 from Rs.83.31 Cr as on March 31, 2021 due to the significant accretion of profits. Gearing of the firm subsequently improved to 0.48 times as on March 31, 2022 as compared to 3.20 times as on March 31, 2021 on account of the substantial reduction in the debt obligations along with the healthy improvement in the equity. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.63 times as on March 31, 2022 as against 3.54 times as on March 31, 2021. The Interest Coverage Ratio (ICR) stood healthy at 7.87 times as on March 31, 2022, however, the Debt Service Coverage Ratio (DSCR) stood moderate at 1.76 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood high at 1.46 times as on March 31, 2022.

Acuité believes that going forward, the financial risk profile of the firm may continue to remain healthy backed by increased accruals and in absence of any debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The operations of the firm are working capital intensive in nature marked by high but improving Gross Current Assets (GCA) of 317 days as on March 31, 2022 as against 407 days as on March 31, 2021. The high GCA days are primarily on account of high other current assets due to advance income tax, statutory advances and regulatory deposits. Further, the inventory holding stood high at 177 days as on March 31, 2022 as compared to 116 days as on March 31, 2021. However, the debtor period stood comfortable at 34 days as on March 31, 2022 as compared to 11 days as on 31st March 2021.

Going forward, Acuité believes that the working capital operations of the firm may continue to remain around similar levels as evident from high level of the other current assets over the medium term.

Proprietorship nature of constitution buoyed by risk of withdrawal of capital

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 Sensitivities

Improvement in the operating income along with healthy profitability margins
Significant improvement in the financial risk profile
Improvement in the liquidity position

Material covenants

None

Liquidity Position: Strong

The firm's liquidity is strong marked by the healthy accruals buoyed by the net cash accruals of Rs.197.61 Cr in FY2022 as against long term debt obligations of Rs.100 Cr over the same period. Further, the cash and bank balances of the firm stood at Rs.6.30 Cr as on March 31, 2022. The current ratio stood comfortable at 2.99 times as on March 31, 2022 as compared to 2.10 times as on March 31, 2021. However, the working capital operations are intensive marked by Gross Current Assets (GCA) of 317 days as on March 31, 2022 as against 407 days as on March 31, 2021. Acuité believes that, going forward, the firm will maintain superior liquidity position due to the high net cash accruals.

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, sound business position, healthy financial risk profile and strong liquidity position. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	379.32	233.68
PAT	Rs. Cr.	195.21	51.31
PAT Margin	(%)	51.46	21.96
Total Debt/Tangible Net Worth	Times	0.48	3.20
PBDIT/Interest	Times	7.87	1.95

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jan 2022	Term Loan	Long Term	111.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	0.10	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.90	ACUITE BBB Stable (Reaffirmed)
30 Sep 2021	Term Loan	Long Term	165.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.90	Not Applicable Withdrawn
Indusind Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	0.10	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	111.00	Not Applicable Withdrawn

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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.

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