Press Release

Phil Coal Benefication Private Limited

November 17, 2021

Rating Assigned

Total Bank Facilities Rated	Rs.40.50 crore
Long Term Rating	ACUITE BBB/ Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating to **ACUITE A3+ (read as ACUITE A three plus)** to the Rs.40.50 crore bank facilities of Phil Coal Benefication Private Limited (PCBPL). The outlook is **'Stable'**.

The rating on PCBPL takes into account the sound business risk profile of the Phil Group as reflected in its improving revenue trend coupled with healthy order book position and an established relationship with customers and suppliers. Further, it is also supported by the management's long track record in the sector, and healthy financial position characterized by strong debt coverage indicators. The rating also draws comfort from the strong liquidity position of the company. These strengths are however, partly offset by the working capital intensity in PCBPL's operations and fluctuation in end-user industry demand.

About the company

Incorporated in 2006- Phil Coal Benefication Private Limited (PCBPL), the flagship entity of the Phil group is a Bilaspur (Chhattisgarh) based company engaged in in coal washing, coal crushing, coal trading and handling along with transportation and logistics services. The group is promoted by the Jha family. It procures coal from various collieries from SECL and its subsidiary through auction and also procures Indonesian coal as per their requirement.

About the group

PCBPL has two subsidiaries- Phil Minerals Benefication and Energy Private Limited (PMBEPL) and Phil Systems (PS). Both the companies provide logistical support to PCBP. The group caters to the coal requirements of power, metal, paper, steel and cement industries and most of its customers are located in Central India including the states of Chhattisgarh and Madhya Pradesh. The group is operating a coal washery of 2.5 MTPA capacity and 2.4 MTPA coal crushing and screening capacity at Bilaspur along with 0.96 MTPA Coal Washery in Raigarh. It has a dedicated Railway siding with South Eastern Central Railway on which it provides coal handling through wreck loading and charging service charges from the client.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Phil Coal Benefication Private Limited (PCBPL), Phil Minerals Benefication and Energy Private Limited (PMBEPL) and Phil Systems (PS), hereinafter referred to as the Phil Group (PG). The consolidation is in view of common management, intercompany holdings, operational linkages between the entities and a similar line of business. Extent of consolidation: Full rating.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with customers**

Established in 2006, the group has been operational for around two decades. The key promoters, Mr Praveen Jha and Mr Pradeep Jha, have more than 2 decades of experience in the business. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the country. The clientele majorly consists of reputed players in the market. Some of the key customers of Phil group are Birla Corporation Limited, Gujarat State Electricity Corporation Limited, Hind Energy Coal Benefication India Ltd (ACUITE A+/Stable/ACUITE A1), Jindal Power Ltd to name a few. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Steady turnover levels**

The group has achieved revenues of Rs.237.30 Cr in FY2021 (prov.) as compared to revenues of Rs. 226.18 Cr in FY2020. The growth in revenue is primarily on account of the group's integrated nature of operations and rise in the revenue from coal trading segment. Presently the group has strong revenue visibility as group has unexecuted beneficiation contracts of around Rs 107.68 Cr issued by different power generation companies and trading and transportation orders of around 150 Cr. Coal is majorly sourced from SECL through auction. The group has already achieved revenues of around Rs. 106.19 Cr revenue till July 2021(Prov). The group has one railway siding in Bilaspur 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. Acuité believes scale of operation will improve in medium term backed by healthy order book and rise in demand for coal in domestic market.

The operating margin of the group stood at 12.99 per cent in FY2021 (provisional) as compared to 14.17 per cent in the previous year. The PAT margins stood at 6.49 per cent in FY2021 (provisional) as against 6.75 per cent as on FY2020. The RoCE levels stood at a comfortable level of about 16.79 per cent in FY2021 (provisional) as against 20.72 per cent in FY2020. The decline is driven by increase in raw material cost during the period. Acuité believes the profitability of the group is expected to remain at a comfortable level in medium term backed by the growing demand from the power sector.

- **Healthy financial risk profile**

The group's financial risk profile is marked by healthy networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group increased to Rs.109.45 Cr as on March 31, 2021 (provisional) from Rs.90.13 Cr as on March 31, 2020 due to accretion of reserves and infusion of equity capital of Rs.1.13 Cr during the period. Gearing of the group stood comfortable at 0.34 times as on March 31, 2021 (provisional) as against 0.22 times as on March 31, 2020. The debt of Rs.37.00 Cr consists of unsecured loan of Rs.19.89 Cr, working capital from the bank of Rs.13.35 Cr, term loan of Rs.2.77 Cr, and current maturity of term loan of Rs.1.00 Cr as on March 31, 2021 (provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.42 times as on March 31, 2021 (provisional) as against 0.59 times as on March 31, 2020. Reason for strong credit metrics is group's low reliance on external debt which has resulted into low financial cost. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 16.81 times as on March 31, 2021 (provisional) and Debt Service Coverage Ratio at 3.88 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.68 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, in absence of any major debt funded capex plans.

Weakness

- **Working capital intensive nature of operation**

The working capital management of the group is marked by Gross Current Assets (GCA) of 169 days as on 31st March 2021 (provisional) as compared to 149 days in the preceding year. The high level of GCA days is on account of high other current assets consisting of advance given to group companies. However, the debtor period stood comfortable at 50 days as on 31st March 2021 as compared to 63 days as on 31st March 2020. This has ensured the company to have moderate reliance on the working capital limits from the bank. Further, the inventory period also stood comfortable at 14 days on 31st March 2021 (provisional) as compared to 2 days in 31st March 2020. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

- **End user sector challenges**

Coal washed, transported and traded by the group find their end use by companies involved in power generation, cement manufacturing and steel and metal plants. The consumers that it caters to are also under high regulation from the government. Increasing cost of supply as against environmentally friendly and economically attractive options of solar and wind power has led to significant reduction in energy consumption from power plants, putting the power plants under financial distress. Loss of supply linkages between the cement industry and coal availability has been a developing challenge in India over lack of infrastructure. Further, capital intensive steel and metal plants have been under low potential utilization and have been experiencing reduced productivity amidst a global competition and slowdown in domestic economic conditions. Any policy changes affecting the highly regulated coal industry or its end users will impact the financial risk profile of the group. The ability of the group to grow in such conditions and maintain its profitability will be key monitorable in the future.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The group's liquidity is strong marked by steady net cash accruals of Rs.25.14 Cr as on March 31, 2021 (provisional) as against long term debt repayment of Rs.5.11 Cr over the same period. The current ratio stood comfortable at 4.57 times as on March 31, 2021 (provisional) as compared to 2.30 times as on March 31, 2020. The fund based limit remained moderately utilized at 62 per cent over the seven months ended August, 2021. The group has neither availed loan moratorium and nor applied for any additional covid loan. The cash and bank balances of the group stood at Rs.7.49 Cr as on March 31, 2021 (provisional) as compared to Rs.9.76 Cr as on March 31, 2020. However, working capital management of the group is moderate marked by Gross Current Assets (GCA) of 169 days on 31st March 2021 (provisional) as compared to 149 days on 31st March 2020. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on Phil group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or operating margins, deterioration in financial risk profile or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	237.30	226.18
PAT	Rs. Cr.	15.40	15.28
PAT Margin	(%)	6.49	6.75
Total Debt/Tangible Net Worth	Times	0.34	0.22
PBDIT/Interest	Times	16.81	13.92

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
- Trading Entities - 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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB/Stable (Assigned)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ (Assigned)
Not Applicable	Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Assigned)

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