

Press Release

Delta Global Resources Private Limited

January 11, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	16.50		ACUITE A3 Assigned
Bank Ratings Loan	12.50	ACUITE BBB- Stable Assigned	
Total	29.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.29.00 crore bank facilities of Delta Global Resources Private Limited (DGRPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the experienced management, augmentation in the business risk profile marked by healthy growth in scale of operations followed by improvement in profitability margins despite the impact of covid-19 pandemic. The rating also draws comfort moderate financial risk profile and adequate liquidity position of the group along with relationships with reputed customers and suppliers. However, these strengths are partly offset by the modest net worth, low profitability margins and end user's sectoral challenges.

About the Company

Gujarat based Delta Global Resources Private Limited (DGRPL) was incorporated in 2015 which is primarily engaged in wholesale trading of imported industrial coal in pan India to the reputed large industrial corporates in across various industries.

About the Group

Delta Group (DG) comprises of two companies, namely, Delta Global Private Limited and Delta Global Resources Private Limited. The group is promoted by Mr. Anurag Goel and Mr. Piyush Goel. The group is majorly engaged into wholesale trading of imported industrial coal across Pan India.

Analytical Approach

The team has consolidated the business and financial risk profile of Delta Global Private Limited (DGPL) and Delta Global Resources Private Limited (DGRPL); together referred as 'Delta Group' to arrive at the rating. The consolidation is on account of the common management, similarities in the line of business and presence of operational and business synergies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

Established track record of operations with experienced management

The group commenced its operations under the leadership of Mr. Anurag Goel who started this business in 2005 from a proprietorship concern in the name of Delta Global. Later, DGPL was set up in the year 2013 and DGRPL in 2015. The group is primarily engaged in wholesale trading of imported industrial coal across pan India to the reputed large industrial corporates in across various industries. Currently, the day-to-day operations of the group are managed by Mr. Goel and Mr. Piyush Goel along with other industry veterans with an experience of over three decades in the aforementioned industry and is well supported by second line of experienced management team. The established presence along with experienced management has helped the group to maintain long and healthy relationship with its reputed customers and suppliers in the industry.

Acuité believes the Delta Group will continue to benefit from its strong presence in the domestic market and the rich experience of the management over the medium term.

Comfortable business risk profile

The consolidated revenue of the group grew around 34 percent CAGR over FY18-FY21 period from Rs.516.78 Cr. in FY18 to Rs.1254.30 Cr. in FY21 on account of rising demand of imported coal across various industries in the country. Further, the group also reported a YoY revenue growth of around 39 percent in FY21 compared against FY20. Despite the onset of covid-19 pandemic, the group revenues witnessed significant growth on account of healthy demand of coal in the second half of the year as the construction and other economic activities resumed after covid-19 restrictions. The operating profit margin of the group also improved to 1.16 percent in FY21 as against 0.56 percent in FY20 majorly on account of decline in purchase of traded goods. However, the operating profit margin is low on account of trading nature of operations of the group. Further, the net profit margin of the group increased to 0.76 percent in FY21 as compared to 0.26 percent in FY20.

Acuité believes that the group will continue to maintain a comfortable business risk profile with continuous growth in the scale over the medium term.

Above average financial risk profile

The net worth of the group stood moderate at Rs.52.53 Cr. as on March 31, 2021 as against Rs.7.43 Cr. as on March 31, 2020. The net worth levels have seen improvement on account of healthy accretion to reserves and infusion of USL by the promoters which has been treated as quasi-equity. The unsecured loan from promoters/related parties increased to Rs.31.00 Cr. as on 31 March, 2021 as against Rs.1.43 Cr. same period last year. The gearing of the group improved to 0.41 times as on 31 March, 2021 compared to 1.37 times same period last year on account of increase in net worth and decline in long term borrowings of the group during the period. The total outside liabilities to tangible net worth (TOL/TNW) level improved and stood at 3.29 times as on March 31, 2021 as against 77.10 times same period last year. The debt protection metrics of the group remained moderate for FY21 marked by interest coverage ratio which improved to 5.12 times in FY21 compared to 2.15 times in FY20 on healthy operating profit of the group. Further the DSCR of the group stood at 2.76 times for in FY21 as against 1.51 times in FY20.

Acuité believes that the financial risk profile of the group will continue to remain above average on account of steady cash accruals and no major debt funded capex.

Weaknesses

Low albeit improving profitability margins due to trading nature of operations

The profitability margins of the group are steady yet low marked by operating margin of 1.16 per cent in FY21 which improved from 0.56 per cent in FY20 and 0.33 per cent in FY19. The improvement in operating profit margins is on account of decline in cost of purchased traded goods. The Profit after Tax margins stood at 0.76 per cent in FY21 as against 0.26 per cent in FY20 and 0.19 in FY19. Despite improvement, the profitability margins remain low on account of trading nature of operations. However, the steady profitability margins have translated into healthy RoCE levels for the group of about 34.70 per cent in FY21 as against 27.31 per cent in FY20.

Acuité believes that the profitability margins of the company will remain range bound due to the trading nature of operations.

Competition space and stressed end user industry

Coal traded and transported by the group find their end use by companies involved in power generation, manufacturing of cement, iron & steel. 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 thermal power plants, putting these power plants under financial distress. Any policy changes affecting the highly regulated coal industry or its end users will impact the financial and business risk profile of the group

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins thereby improving the financial risk profile
- Deterioration in working capital management leading to stretched liquidity

Material covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.9.95 Cr. during FY21, while its maturing debt obligations stood low at around Rs.0.14 Cr. over the same period. The liquidity is also supported by infusion of USL by the promoters which is treated as quasi-equity (USL is interest bearing in the range of 10-12%). The working capital operations of the group are efficiently managed marked by gross current asset (GCA) days of 60 days for FY21 and also the working capital limits are unutilized on an average in last six months ended Nov' 21. The group maintains unencumbered cash and bank balances of Rs.7.34 Cr. as on March 31, 2021 and the current ratio stood moderate at 1.28 times as on March 31, 2021. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against matured debt obligations over the medium term.

Outlook: Stable

Acuité believes that Delta Group will maintain a 'Stable' outlook over the medium term on the back of promoter experience and comfortable business risk profile. The outlook may be revised to 'Positive' in case the group is able to generate healthy revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity or further deterioration in its financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1254.30	898.54
PAT	Rs. Cr.	9.53	2.37
PAT Margin	(%)	0.76	0.26
Total Debt/Tangible Net Worth	Times	0.41	1.37
PBDIT/Interest	Times	5.12	2.15

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <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>

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- Stable Assigned

CC limit includes sublimit of Rs.8.50 Cr. as LC

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About Acuité Ratings & Research

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