

**Press Release**  
**Refex Industries Limited**

April 04, 2023



**Rating Assigned and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BBB+   Stable   Assigned	-
Bank Loan Ratings	15.00	ACUITE BBB+   Stable   Reaffirmed	-
Bank Loan Ratings	25.00	-	ACUITE A2   Assigned
Bank Loan Ratings	25.00	-	ACUITE A2   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	100.00	-	-

**Rating Rationale**

Acuite has reaffirmed its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.40.00 Cr bank facilities of Refex Industries Limited (RIL).

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.60.00 Cr bank facilities of Refex Industries Limited (RIL).The outlook is '**Stable**'.

**Rating Rationale**

The rating takes into account the improved operating income in 9M FY2023 and financial performance of RIL and range bound operating margins. The operating income of the Company stood at Rs. 443.96 Cr in FY2022 as against Rs.632.66 Cr in FY2021. In 9M FY23 the company generated revenues of Rs. 999.02 Cr and is expected to close the year in the range of Rs. 1365-1385 Cr. The growth in 9M FY2023 is driven by increase in domestic prices and overall higher contribution of coal supply segment in FY2023. The operating margins ranged between 10.71-13.08 percent for the last two years ended FY2022. The financial risk profile of RIL continues to be healthy with comfortable debt protection metrics and low gearing. The overall gearing of the Company stood at 0.08 times as on March 31, 2022. The interest coverage ratio stood at 7.94 times in FY2022 as against 6.31 times in FY2021. The rating, however, remain constrained on account of high working capital intensity.

**About the Company**

Refex Industries Limited (RIL) was incorporated in 2002 in Chennai, Tamil Nadu. RIL is primarily into Coal Trading to power plants and Coal Handling Services and re-filler of Refrigerant gases in India. RIL has also forayed into the logistic services to power plants such as Handling and Disposal of Fly Ash, crushing of uncrushed coal. Besides, RIL also operates a 5.18 Mega Watt (MW) Solar Power Plant at Vituza village, Barmer, Rajasthan. RIL is a publicly listed company and is promoted by Mr. Anil Jain and Sherisha Technology Private Limited.

## Analytical Approach

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

## Key Rating Drivers

### Strengths

- **Promoters' extensive experience in industry; Established regional player in Chhattisgarh**

RIL is promoted by Mr. Anil Jain and his family members. Mr. Jain has been associated with RIL since its inception; this has helped RIL to establish strong market presence in the state of Chhattisgarh, Maharashtra and Tamil Nadu. Mr. Jain has over 23 years of experience in heading various business operations and is actively involved with various trade bodies such as The Associated Chambers of Commerce and Industry in India (ASSOCHAM) and the National Solar Energy Federation of India (NSEFI). Mr. Jain looks after the day-to-day operations of RIL and is assisted by team of experienced professionals down the line. RIL's operations are divided into 5 business segments i.e. Coal business, Ash Handling, Refrigerant gases, Sale of services and Solar Power. The revenue mix as of 9M FY2023 of RIL consists of revenue from Coal Handling & trading of Rs. 781.41 (78 percent), Ash Handling of Rs.406 Cr (8.87 percent), Refrigerant Gas of Rs.42.19 Cr (4.2 percent), Sales of Service of Rs.47.90 Cr (4.79 percent) Solar energy of Rs.8.69 Cr (0.87 percent) Module trading Rs.11.24Cr(1.13 percent) and power trading Rs.19 Cr (1.90 percent) . Acuité believes that RIL will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage and business segments providing moderate revenue visibility in medium term.

- **Healthy financial risk profile**

RIL's financial risk profile is healthy, marked by a healthy networth and gearing along with healthy debt protection metrics. The net worth of the company stood at Rs.183.98 Cr and Rs.139.51 Cr as on March 31, 2022 and 2021 respectively. The improvement is on account of healthy accretion of net profit to the reserves. The gearing of the company stood at 0.08 times as on March 31, 2022 . RIL'S debt protection metrics is healthy marked by- Interest coverage ratio and debt service coverage ratio stood at 7.94 times and 6.31 times as on March 31, 2022 respectively as against 8.04 times and 6.15 times as on March 31, 2021 respectively. TOL/TNW stood at 1.06 times and 1.43 times as on March 31, 2022 and 2021 respectively. Improvement is on account of decrease in payables. The debt to EBITDA of the company stood at 0.20 times as on March 31, 2022 as against 0.00 times as on March 31, 2022. Acuité expects the financial risk profile to remain healthy over the medium to long term period on account of healthy capital structure and stable operations of RIL.

### Weaknesses

- **Intensive working capital cycle**

The company has an intensive working capital cycle marked by Gross current assets (GCA) days at 175 days as on March 31, 2022 as against 98 days as on March 31, 2021. The GCA days are majorly constitutes debtor days and intercorporate deposit extended towards group company "Sherisha Technology Private Limited" of amount Rs.46.59 and Rs.6.20 Cr for Reveuse Fashions and Lifestyle Pvt Ltd . Inventory days stood at 7 days as on March 31, 2022 as against 4 days as on March 31, 2021. Subsequently, the payable period stood at 89 days as on March 31, 2022 as against 123 days as on March 31, 2021 respectively. The debtors day stood at 96 days as on March 31, 2022 as against 54 days as on March 31, 2021. Further, the average bank limit utilization in the last ten months ended January , 23 remained at ~85percent for fund based and 87 percent for non-fund

based facilities.

- **Presence of high counterparty risk in the revenue profile**

RIL is engaged in various segments such as Coal trading, Ash Handling, Refrigerant gases and sale of services leading to diversified customer profile. However, it can be observed that the top 10 customers are contributing nearly 85-90 per cent to the total sales in FY2022. KSK Mahanadi Power Company Limited, one of the major customer of RIL has been contributing more than 36 per cent of the total sales in the same period and in 9M FY2023 it can be observed that the contribution from KSK Mahanadi Power Company Limited is more than 70 percent out of the total revenue achieved till 9M FY2023, thereby depicting high customer concentration risk in revenue profile. It is observed that certain customer of RIL are currently financially stressed, which poses a threat of delayed payments and/or cancellations of work orders. RIL mitigates such cancellations by means of clauses and notice periods in the work orders, yet there is still a heavy dependency on each of respective thermal power plants. Acuité believes that there exists high counterparty risk in the revenue profile of the company. However, the risk of concentration is mitigated to an extent on account of long standing relationship of the company and promoters with its major customers. RIL's management is aiming for strategic corporate strategy to diversify its customer base both by party wise and geographical wise.

- **Presence of intense competition in the sector; impact of change in regulations**

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. Acuité believes that any change in regulations and policies could have an impact on the business risk profile of the RIL.

### **Rating Sensitivities**

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.
- Sustainable diversification in customer profile and geographical presence

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

### **Material covenants**

None

### **Liquidity Position: Adequate**

RIL's liquidity is healthy marked by healthy generation of net cash accruals in FY2022 to its maturing debt obligations. RIL has generated cash accruals in the range of Rs.51.04 Cr in FY2022 as against nil long term debt obligations for the same period. The current ratio stood at 1.17 times as on March,31 2022 against 0.87 in previous year. RIL maintained unencumbered cash and bank balances of Rs.0.29 Cr as on March 31 2022. Further, RIL has deposit with bank of Rs.0.70 Cr. Acuité believes that the liquidity of RIL to remain healthy on account of stable scale of operations and healthy capital structure. RIL is expected to generate adequate NCAs in the range of Rs.108.-113 Cr. against CPLTD of Rs.0.38-Rs.6.66 Cr over the medium term. Acuité believes that the liquidity of RIL to remain adequate on account of stable scale of operations and healthy capital structure

## Outlook: Stable

Acuité believes that RIL rating will maintain a 'Stable' outlook 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' if RIL registers sustainable improvement in work execution, realization in trading leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case RIL registers lower-than-expected revenues and profitability or any significant delays from the counterparties resulting in 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 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	443.96	632.66
PAT	Rs. Cr.	45.39	40.94
PAT Margin	(%)	10.22	6.47
Total Debt/Tangible Net Worth	Times	0.08	0.00
PBDIT/Interest	Times	7.94	8.04

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Jan 2022	Letter of Credit	Short Term	25.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+   Stable (Assigned)
	Cash Credit	Long Term	5.00	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	15.00	ACUITE BBB+   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A2   Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A2   Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB+   Stable   Assigned

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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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