

Press Release

Aarti Logistic Private Limited

September 12, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs 15.00 Cr. bank facilities of Aarti Logistics Private Limited (AAPL). The outlook is '**Stable**'.

Rational for Rating

The ratings reflect group's healthy business profile supported by its diversified customer base which includes reputed corporates like Hindalco industries Ltd, ACC Ltd, Northern Coalfields Ltd, Ambuja Cement amongst others. The rating also reflects the extensive experience of its promoter in the coal trading and transportation business which is also reflected through the its large order book for the transportation business resulting in healthy and sustained revenue growth. These rating strengths are however, partially offset by the high working capital intensity, susceptibility of operating profit margin to volatility in fuel prices and intense competition in the industry and proclivity towards trading in risk assets.

About Company

Mumbai based Aarti Logistic Private Limited was Incorporated in 2002, ALPL is involved in coal logistics business and is promoted by Mr. Vinay Shah and Mr. Ketan Shah. It has operational linkages with its sister company, Shah Coal Private Limited (SCPL), which is involved in coal trading and logistics business.

About the Group

Mumbai based Shah Coal Private Limited (SCPL) was incorporated in 1997, It trades in imported coal. It also provides logistics and consultancy services to its customers for domestic coal procurement. The company imports coal mainly from Indonesia, South Africa, USA and Australia and sells in the domestic market. The company is promoted by Mr. Vinay Shah and Mr. Ketan Shah, who have more than three decades of experience in the coal trading business. SCPL has a wholly owned subsidiary, Pan Asia Resources DMCC, based in Dubai, UAE and is engaged in trading of imported coal.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the financial and business risk profiles of Shah Coal Private Limited (SCPL), Aarti Logistics Private Limited (ALPL) and hereinafter referred to as Shah group on account of their common management, strong operational and financial linkages of the business segments and the nature of business to arrive at this rating.

Key Rating Drivers

Strengths

>Promoter's extensive experience in logistics industry; established track record of operations in importing and trading of coal

Shah Group has been in the coal trading business since 1997, Mr. Vinay Shah and Mr. Ketan Shah, (promoters), look after the day-to-day operations of the group. Over the years the promoters have forayed into logistics business and the provide transportation service from the coal fields to the customers location. The company has recently also secured contracts to undertake the transportation and logistics of coal from the mine. Their presence of more than three decades of experience in the coal trading business has enabled the promoter to establish healthy relationships with its customers. The key customers of the group include reputed customer namely Hindalco industries Ltd, ACC Ltd, Northern Coalfields Ltd , Ambuja Cement amongst others. The group reported an operating income grew by ~43% to Rs.478.50 Crore in FY2022 (Prov) from Rs.335.21 crore in FY2021.

Acuité believes that Shah group will continue to derive benefits from the vast experience of its promoters and the established relationships with its key customers.

>Healthy Financial Risk Profile

The financial risk profile of the company stood healthy marked by healthy net worth, moderate gearing and debt protection metrics. The tangible net worth stood at Rs.210.77 crore as on 31 March, 2022 (Prov) as against Rs.179.36 crore as on 31 March, 2021 and Rs.156.87 crore as on 31 March, 2020. The improvement in net worth is attributable to healthy accretion to reserves, which intturn has been healthy due to sustained improvement in its scale of operations. The total debt of the company stood at Rs.116.88 crore includes Rs.43.52 crore of long term debt, Rs.39.64 crore of short term debt, Rs.9.50 crore of unsecured loans.. The gearing (debt to equity) stood at 0.55 times as on 31 March, 2022 (Prov) as compared to 0.19 times as on 31 March, 2021. The group has a capex plan to procure additional fleet of the truck, which is likely to lead to additional debt of Rs.12.50 crore over the medium term. As a result of the capex plan, the gearing levels are likely to moderate to around 0.26 times as on March 31, 2024. The moderate gearing and healthy profitability levels have resulted in healthy coverage ratios. The interest Coverage Ratio stood at 7.32 times for FY2022 (Prov) as against 7.14 times for FY2021 and 8.89 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.78 times in FY2022 (Prov) as against 2.26 times in FY2021 and 2.66 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.02 times as on 31 March, 2022 (Prov) as against 0.69 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.39 times for FY2022 (Prov) as against 0.93 times for FY2021.

Acuite expects the financial risk profile to remain healthy over the medium term on account of healthy capital structure and stable operations of the group.

Weaknesses

>Moderate Working Capital Management

The working capital management of the company is moderate marked by GCA days of 108 days in FY2022 (Prov) as against 143 days in FY2021 and 123 days in FY2020. The group's working capital cycle elongated on account of the high receivable period. The group has

consciously adopted a policy to reduce the open inventory levels. The risk of volatility in price of coal is mitigated by absence of any open inventory and prior settlement of price between the buyer and the seller. Moreover, the foreign exchange risk associated with the import of coal is managed by presence of hedging policies adopted by the company. Acuite expects the operations of the company to remain working capital moderate over the medium.

>High customer concentration risks

Shah group's is exposed to high customer concentration, while the company enjoys a long standing relationship with its key customers Hindalco industries Ltd, ACC Ltd, Northern Coalfields Ltd, Ambuja Cement and many others. The company is engaged in the trading of imported coal and transportation business backed by the orders received. Any decline in offtake from its customers will have a huge impact on the company's sales volume. Acuite believes that, however, the customer concentration is mitigated to some extent by the established relationship of the company with its customers since its inception.

>Competitive and regulated industry

Coal being a commodity has demonstrated significant volatility in its prices in the past. Imported coal prices are also governed by global demand-supply factors. The coal trading and transport industry is highly fragmented, with a large number of players, due to the low entry barriers. This has restricted the growth in the company's margins in these segments. Also, the industry is highly regulated, with the ministry of coal governing its operations in the country. Any adverse regulations would impact the operations of the company. Shah Coal group may face challenges if receivables exceed usage of letters of credit. Furthermore, the business risk profile remains exposed to fluctuations in coal prices and the regulatory policies of the government.

Acuite believes that any change in regulations and policies could have an adverse impact on the business risk profile of the group and expects the profitability position of the firm to remain modest over the medium term

Rating Sensitivities

- Substantial and sustainable increase in revenue and profitability
- Significant improvement in the working capital cycle

Material Covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.31.61-Rs.45.47 Crore from FY 2021- 2022 against its maturing debt obligations in the range of Rs.10.45-Rs.24.22 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.54.84-67.90 crores against the maturing repayment obligations of around Rs.18.64-21.04 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 108 days in FY2022 (Prov) as against 143 days in FY2021. The average bank limit utilization in SCPL for fund based for the past 06 months ending June 2022 is ~ 40.00 percent for all the three banks and for Non fund based is around ~80%-85%. The average bank Limit utilization in ALPL for fund based for the past 06 months ending June 2022 is ~45.62 percent.

Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term

Outlook: Stable

Acuite believes that Shah Group will maintain a 'Stable' outlook over the medium term on account of long track, record of operations and established relations with its customers and suppliers. The outlook may be revised to 'Positive', in case of increasing repeat orders from well diversified customer base and improvement in realization per tonne leading to higher-than-expected revenues and profitability leading to improvement in financial risk profile.

Conversely, the outlook may be revised to 'Negative' in case Shah group witnesses any stretch in its working capital management or larger than expected debt- funded capital expenditure leading to deterioration of its financial risk profile particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	478.50	335.21
PAT	Rs. Cr.	31.40	22.49
PAT Margin	(%)	6.56	6.71
Total Debt/Tangible Net Worth	Times	0.55	0.19
PBDIT/Interest	Times	7.32	7.14

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

None

Any Other Information

Standalone Figures

Particulars	Unit	FY2022 (Provisional)	FY2021 (Actual)
Revenue	Rs. Cr.	30.63	35.38
PAT	Rs. Cr.	1.59	3.05
PAT Margin	%	5.19	8.62
Total Debt/Tangible Net Worth	Times	0.09	0.01
PBDIT/Interest	Times	20.37	24.91

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Trading Entity: <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:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ Assigned
Kotak Mahindra Bank	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Siddharth Shah Analyst-Rating Operations Tel: 022-49294065 siddharth.shah@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.