



Press Release
Earth Minerals Company Limited
November 06, 2023
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE A+ Stable Assigned	-
Bank Loan Ratings	20.00	ACUITE A+ Stable Upgraded	-
Bank Loan Ratings	10.00	-	ACUITE A1 Assigned
Bank Loan Ratings	30.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	110.00	-	-

Rating Rationale

Acuite has upgraded and assigned the long-term rating to '**ACUITÉ A+**' (read as **ACUITÉ A plus**) from '**ACUITÉ A-**' (read as **ACUITÉ A minus**) and the short term rating to '**ACUITÉ A1**' (read as **ACUITÉ A one**) from '**ACUITÉ A2+**' (read as **ACUITÉ A two plus**) on the Rs. 110.00 crore bank facilities of Earth Minerals Company Limited. The outlook remains '**Stable**'.

Rationale for rating upgrade

The rating upgrade is primarily driven by the improvement in the business risk profile of EMCL marked by increase in the scale of operations and healthy profitability margins. The scale of operations of EMCL rose to Rs. 37.48 Cr in FY2023 (Provisional) from Rs. 5.04 Cr in FY2022. This has been a result of increase in commission income from coal trading. The Company earlier had license issue for its railway siding which has been resolved in FY2024. Henceforth, EMCL can bid in direct tenders with power companies to acquire coal washing orders which provides further revenue visibility. The operating margins of the company was also healthy at 68.73 per cent in FY2023 (Provisional) due to commission-based nature of business. This is expected to reduce over the medium term as now the Company is expected to start operations in coal washing business, post resolution of railway siding license issue. The rating further factors improvement in the financial risk profile of the company marked by increase in the network and debt coverage indicators along with significant improvement in the gearing levels from 8.85 times in FY2022 to 2.36 times in FY2023 (Provisional). The rating also favours factors in the financial support provided by the flagship company HECBIL. These strengths are, however, partially offset by the intensive working capital management marked by high Gross Current Assets (GCA) of 361 days in FY2023 (Provisional).

About the Company

Acquired in 2017, Earth Minerals Company Limited (EMCL) is a part of the Hind Energy group. The company is engaged in coal washing and has an installed capacity of 4 MTPA. Presently in FY2023, EMCL's shareholding has changed and HECBIL ceases to be a holding company of EMCL. However, the shareholding is with the promoter group and their other group entities and HECBIL has also extended corporate guarantees to EMCL's bank loans.

About the Group

Hind Energy and Coal Beneficiation (India) Limited (HECBIL) was incorporated in 2005 as a private limited company and later on the constitution was changed to a limited company in

2010. The company is managed by Mr. Pawan Kumar Agrawal and Mr. Sanjay Agrawal along with a group of experienced professionals. HECBIL is engaged in the beneficiation of non-coking coal according to the Gross Calorific Value (GCV) requirement of the customers. The customer base comprises of power generating, steel and cement industries. The company also trades in reject coal which is the by-product of beneficiation. The group has an overall installed capacity of 16.64 MTPA. In HECBIL, the washing capacity is 6.48 MTPA.

Based in Bilaspur, Clean Coal Enterprises Private Limited (CCEPL) is managed by Mr. Pawan Kumar Agrawal and Mr. Sanjay Agrawal. CCEPL is engaged in the beneficiation of non-coking coal based on the GCV requirement of the customers from the power generating, steel and cement industries. Additionally, the company trades in reject coal. Currently, the company has an installed capacity of 1.86 MTPA.

Hind Multi Services Private Limited (HMSPL) is a subsidiary of HECBIL (Hind Energy and Coal Benefication (India) Limited) and has a washing capacity of 3.4 MTPA. HMSPL is promoted by Mr. Pawan Kumar Agrawal and Mr. Sanjay Agrawal.

Based in Madhya Pradesh, Radiant Coal Benefication Private Limited (RCBPL) is promoted by Mr. Pawan Kumar Agrawal and Mr. Satish Kumar Agarwal. RCBPL is involved in the coal beneficiation business with an installed capacity of 0.9 MTPA.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Hind Energy and Coal Benefication (India) Limited (HECBIL), Clean Coal Enterprises Private Limited (CCEPL), Radiant Coal Benefication Private Limited (RCBPL), Earth Mineral Company Limited (EMCL) and Hind Multi Services Private Limited (HMSPL), hereinafter referred to as the Hind Group (HG). The consolidation is in the view of similar line of business, common management and HECBIL holds more than 50 percent stakes in CCEPL, RCBPL & HMSPL. Although EMCL ceases to be held by HECBIL but has been consolidated in view of similar line of business, common management and corporate guarantee provided by HECBIL.

Key Rating Drivers

Strengths

Strong presence in the industry

Hind Group was incorporated in 2005 with the incorporation of its flagship company, HECBIL. Since then, the group has expanded their operations and is currently engaged in the business of coal washing, coal liasoning, coal transportation and coal trading. It is also engaged in coal trading from the rejects acquired through washing. The group has incorporated 2 (HECBIL & HMSPL) and acquired 3 (CCEPL, RCBPL & EMCL) companies and has a collective washing capacity of 16.64 MTPA. This expansion has helped the group in improving the operating performance. The group also owns 3 railway sidings which further enhances its operational efficiencies.

Acuité derives comfort from the group's established position in the industry.

Long track record of operations aided by experienced management

Hind Group is aided by the extensive experience of Mr. Pawan Kumar Agrawal and Mr. Sanjay Agrawal along with a set of experienced professionals. With operations spanning around two decades coupled with support from the experienced promoters, the group has established a strong clientele base in the private and public sectors comprising of Rajasthan Rajya Vidyut Utpadan Nigam Limited (RVUNL), Maharashtra State Power Generation Company Limited (MAHAGENCO), among others.

Acuité believes that the experienced management and the established presence in the coal industry will continue to benefit the group over the medium term.

Healthy scale of operations backed by sound order book position

The group's scale of operations is healthy marked by revenues of Rs. 1041.07 Cr in FY2023 (Provisional) as against Rs. 755.55 Cr in FY2022 and Rs. 267.72 Cr in FY2021. The improvement in

the operating income is driven by ramp up in the scale of operations of HMSPL along with rise in income from coal trading segment because of increase in demand for coal due to improvement in economic activities. The operating income is further supported by the strong order book position of the group which provides healthy revenue visibility. All the contracts of the group are issued by the power generation companies related to washing, handling and transportation of coal. Nearly 40 percent of contracts have escalation clause that are linked to wholesale price index. Moreover, the group has fixed annual contracts of around Rs 500 Cr from various thermal power plants regarding coal washing.

Also, since FY2024, EMCL can bid in direct tenders with power companies to acquire coal washing orders which provides further revenue visibility of the group.

Acuité believes the scale of operations will remain healthy over the medium term backed by the healthy order flow from state owned entities and the steady demand for coal in the market.

Moreover, the profitability margins of the group remained at healthy levels in FY2023. The operating margin stood at 18.72 per cent in FY2023 (Provisional) as against 25.79 per cent in FY2022. The decline in the profit margin is primarily driven by the hefty deductions by power plants in FY2023 to the tune of Rs. 112.32 Cr (approximately). This substantial amount takes into account the total of the last three consecutive financial years which got accumulated in the last two years due to the pandemic. The deductions are owing to shortfall in the quality of products delivered in comparison to the client's expectations.

However, the RoCE of the group stood at a comfortable level of 22.61 per cent in FY2023 (Provisional).

Acuité believes that the profitability may continue to remain healthy over the medium term owing to the high margin in coal washing segment.

Robust financial risk profile

The group has a robust financial risk profile marked by its healthy net worth, low gearing ratio and comfortable debt protection metrics. The tangible net worth of the group stood at Rs. 734.88 Cr. as on 31st March, 2023 (Provisional) as compared to Rs. 605.75 Cr. in the previous year due to accretion to reserves. The gearing ratio of the group stood at 0.26 times in FY2023 (Provisional) as against 0.23 times in FY2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.58 times in FY2023 (Provisional). Moreover, the healthy debt coverage indicators marked by Interest Coverage Ratio (ICR) at 9.79 times and Debt Service Coverage Ratio (DSCR) at 5.17 times in FY2023 (Provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.92 times in FY2023 (Provisional). The group has capex plans to set up a railway siding in CCEPL, acquiring coals washeries and setting up offices in Nagpur (Maharashtra), Raipur (Chhattisgarh) and in Odisha. The total capex cost is expected to be about Rs. 130 Cr of which almost Rs. 88 Cr has been incurred till date and balance will be completed by FY2025. The same is being funded by internal accruals, and so it is not expected to affect the gearing ratio of the group.

Acuite believes financial risk profile of the group will remain robust over the medium term backed by healthy cash accruals leading to improved net worth and gearing and have comfortable debt protection metrics over the medium term.

Weaknesses

Working capital intensive nature of operations

The working capital requirement of the group is intensive marked by high by Gross Current Assets (GCA) of 200 days in FY2023 (Provisional) as compared to 175 days in FY2022 due to stretched receivables and high other current assets. The debtor days stood high at 100 days in FY2023 (Provisional) because of stretched receivables from different government owned entities. The high other current assets in FY2023 are primarily on account of high amount of accrued interest and unbilled receivables to the tune of Rs. 69.63 Cr and balance with Government authorities of Rs. 18.51 Cr. However, the inventory period stood moderate at 27 days in FY2023 (Provisional) as compared to 15 days in FY2022.

Also, the group has extended financial support to its other group companies (not consolidated) to the extent of about Rs.50.56 Cr in FY2023 which forms a part of its other current assets. The group's creditor period stood at 46 days in FY2023 (Provisional) as against

36 days in FY2022. The average working capital utilization of the group stood low around 27 percent during last seven months ended August 2023.

Acuité believes the working capital cycle of the group will continue to remain intensive owing to stretched receivables and other current assets over the medium term.

End user sector challenges

Coal washed, transported and traded by Hind group find their end use by companies involved in power generation, cement manufacturing and steel and metal plants. The consumers that Hind group 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.

Any policy changes affecting the highly regulated coal industry or its end users will impact the financial risk profile of Hind group. The ability of Hind group to grow in such conditions and maintain its profitability will be key monitorable in the future.

Rating Sensitivities

Sustenance in revenue growth while maintaining profitability

Any debt funded capex plans affecting the capital structure

Higher than expected support to other group companies of promoters

Any change in government regulations

All Covenants

None

Liquidity Position

Strong

The strong liquidity position of Hind Group is marked by the healthy net cash accruals of Rs. 175.53 Cr in FY2023 (Provisional) as against current maturity of only Rs. 14.58 Cr over the same period. Moreover, the average working capital utilization stood low around 27 percent during last seven months ended August 2023. Current ratio stood comfortable at 2.45 times in FY2023 (Provisional). However, the group's working capital cycle is intensive in nature marked by high GCA days which stood at 200 days in FY2023 (Provisional) as against 175 days in FY2022 due to stretched receivables. Further, the group has capex plans, but the same is being funded by internal accrual and thus the reliance on bank line is minimal. The group provides financial support in the form of loans and advances and as investments to other subsidiaries and group companies (not consolidated) which reduces its financial flexibility slightly. The continuance and extent of such financial support will remain a key monitorable factor.

Acuite believes liquidity profile will continue to remain strong backed by steady cash accruals, absence of debt funded capex plans and lower reliance on bank lines over the medium term.

Outlook: Stable

Acuité believes that Hind Group will maintain a 'Stable' outlook over the medium term on account of its robust financial risk profile and sound business risk profile. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations and profitability margins along with maintenance of strong financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity due to excess financial support to group companies and weakening of financial risk profile due to debt funded capex plans.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1041.07	755.55
PAT	Rs. Cr.	129.01	118.87
PAT Margin	(%)	12.39	15.73
Total Debt/Tangible Net Worth	Times	0.26	0.23
PBDIT/Interest	Times	9.79	12.40

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 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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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
07 Feb 2023	Proposed Bank Facility	Short Term	10.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- 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
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A1 Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A+ Stable Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A+ Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 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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