



Press Release
Narayani Resources Private Limited
August 09, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	30.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	37.00	-	ACUITE A3 Assigned
Bank Loan Ratings	80.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	160.00	-	-

Rating Rationale

Acuite has assigned and reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 160.00 Cr bank facilities of Narayani Resources Private Limited (NRPL) . The outlook is '**Stable**'.

The rating reflects the extensive experience of the promoters in the coal trading business which helped them to build a healthy relationship with reputed the clients namely Trafigura India Pvt Ltd, Essar Power Gujarat Ltd to name a few. Further, the rating factors in the above-average financial risk profile of NRPL. The rating also factors in the healthy growth of revenue supported by the sustained volume growth in the production coupled with an increase in the coal prices and increasing demand in the industry, providing the revenue visibility over the medium term. These strengths are however, partially offset by negative cash flow from operations, exposure to counterparty risk, volatility in coal prices, and changes in regulatory policies.

About the Company

Incorporated in 2011, Kolkata based Narayani Resources Private Limited (NRPL) is engaged in trading of coal, iron ore, coke and limestone. NRPL started its operation in FY2019 and promoted by Mr. Ankur Agarwal, and Mr. Ashish Karnani who have extensive experience in the coal trading industry. The company caters to the coal requirements of power, metal, paper, steel and cement industries and it procures coal from domestic market, as well as from the regions of South Africa, Australia and Indonesia as per requirement.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NRPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established relationship with customers

The promoter, Mr. Ankur Agarwal has more than a decade of experience that helped them to establish comfortable relationships with the key suppliers and reputed clients with high credit worthiness in the domestic market. Some of the key customers of the company are Trafigura India Pvt Ltd, Essar Power Gujarat Ltd, Shyam Steel Industries 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.

Significant improvement in scale of operation

The company has achieved revenues of Rs. 810.87 Cr in FY2022 as compared to revenues of Rs 263.97 Cr in FY2021. The growth in FY21 was limited due to the disruption in operation during the pandemic outbreak and also the demand for electricity was low which led to the decline in demand for coal. However, the top line improved significantly in FY22, mainly driven by both improvement in volume and realizations. The growth in revenue was driven by high demand from end user industry like iron and steel, power cement, etc. Further, the company has already achieved revenues of Rs ~1050.39 Cr in FY 2023(Prov).

The coal prices have significantly increased in FY23, largely due to greater fuel and electricity demand, as the countries were slowly liberated from the stringent coronavirus restrictions, and the repercussions of the Russia-Ukraine war. As many European countries moved to restricting gas imports from Russia, coal has become the alternative choice to fulfill the power supply gap, upswinging the prices. The company recorded revenue of Rs 260.33 Cr (provisional) in Q1FY24. However, Acuité expects some moderation in the coal prices over the medium term, but backed by increasing demand for coal in the domestic market, the company is expected to sustain its performance going forward.

The EBITDA per tonne has been consistently increasing since FY2022. However, the EBITDA margin of the company moderated in FY23 to 2.46 per cent (provisional) as compared to 4.26 per cent in the previous year, due to increasing input prices, high freight cost for transportation of coal, on account of volatility in diesel prices and higher commission expenses. The PAT margins also declined to 1.46 per cent in FY2023 (provisional) as against 2.83 per cent as on FY2022, due to substantial increase in finance cost. But the ROCE levels are expected to remain at comfortable level in FY2023, benefitting from the healthy profitability and asset-light nature of the business. Acuité believes that the stable market position and diversified clientele will mitigate the impact of decline, (if any) in demand in the sectors. While coal trading volume will be supported by continued demand from the power sector, sustenance of the coal trading volumes will remain key monitorable.

Above average financial risk profile

The company's financial risk profile is marked by modest networth base, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 50.43 Cr as on March 31, 2022 from Rs.27.46 Cr as on March 31, 2021, aided by sizeable accretion to reserves and infusion of equity by the promoters. Acuité has considered unsecured loans to the tune of Rs.21.67 Cr as on March 31, 2022 as part of networth as these loans are subordinated to bank debt. This kept the capital structure conservative, as reflected by gearing of 0.42 times as on March 31, 2022. The promoters have extended significant financial support to the company, via unsecured loans to cover working capital and debt obligations. However, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.41 times as on March 31, 2022, on account of significant advances received from the customers reflecting strong demand and healthy order pipeline. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 7.97 times and Debt Service Coverage Ratio at 6.13 times as on March 31, 2022. The surge in earnings in FY2022 supported by high demand and higher accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 1.09 times as on March 31, 2022. Acuité believes that NRPL's financial profile has strengthened further in FY2023 and the same is likely to sustain going forward, supported by healthy internal accrual generation and in absence of any major debt funded capex plans.

Weaknesses Negative Cashflow from the operations

Despite strong growth in operating income and operating margin in FY 2022, the cash conversion (cash flow from operations / EBITDA) has been weak, and cash flow from operations has been negative in FY 2022 on account of significant increase in advances to suppliers and security deposits kept with the suppliers to support the increase in inventory level, which in turn has stretched the fund based utilization. However, working capital management of the company has been moderate, which is reflected from improved GCA days of 85 days as on March 31, 2022 as compared to 172 days as on March 31, 2021. This is supported by low debtor period of 23 days as on March 31, 2022, since the company majorly sells to the reputed clientele and follows an efficient collection mechanism. Further, the inventory holding improved and stood comfortable at 36 days in 31st March 2022 as compared to 61 days as on 31st March 2021, benefitting from a low lead time for procurement of the domestic coal. Acuité expects the cash flow from operations to improve in FY23 and turn positive in FY24 on account of a likely improvement in EBITDA and supported by regularity in collection mechanism and comfortable inventory holding period.

Competition space and stressed end user industry

Coal traded and transported by NRPL find their end use by companies involved in power generation, manufacturing of cement, iron & steel. Increasing cost of supply as against environment friendly and economically attractive options of solar and wind power, that has led to significant reduction in energy consumption from power plants, putting the 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 company. 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 in the sector.

Rating Sensitivities

- Sustained growth in revenue and profitability, leading to positive cash flow from the operations
- Weakening of the financial risk profile, leading to total outside liabilities to tangible networth ratio of over 3.5 times

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.23.25 Cr as on March 31, 2022 as against long term debt repayment of only Rs.0.37 Cr over the same period. The current ratio stood comfortable at 1.33 times as on March 31, 2022 as compared to 1.23 times as on March 31, 2021. The fund based limit remained utilized at 81.55 per cent over the eleven months ended February, 2022. The non-fund based limit remained utilized at ~64.46 per cent over the eleven months ended February, 2022. However, working capital management of the company is marked by comfortable Gross Current Assets (GCA) of 85 days in 31st March 2022 as compared to 172 days in 31st March 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of sustainable growth in the financial performance of the company marked by satisfactory scale of operations and sustenance of profitability margins coupled with comfortable capital structure and strong debt coverage indicators on the back of consistent increase in the networth and healthy cash accruals over the years. Conversely, the outlook may be revised in case of weakening of its business risk profile, lower coal offtake and

deterioration in profitability margins thereby impacting the liquidity and debt protection indicators of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	810.87	263.97
PAT	Rs. Cr.	22.98	5.04
PAT Margin	(%)	2.83	1.91
Total Debt/Tangible Net Worth	Times	0.42	0.19
PBDIT/Interest	Times	7.97	3.43

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

Not Applicable

Any other information

Not Applicable

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, Acuite 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
11 May 2023	Letter of Credit	Short Term	47.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	3.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	25.00	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
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	47.00	ACUITE A3 Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3 Assigned
ICICI Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A3 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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