Press Release

PARAS POWER AND COAL BENEFICATION LIMITED

August 19, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Ter
Bank Loan Ratings	40.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	50.00	-	ACUITE A3+ | Assigned
Total Outstanding Quantum (Rs. Cr)	90.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and its short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 90.00 Cr bank facilities of Paras Power and Coal Benefication Limited (PPCBL). The outlook is **'Stable'.**

Rationale for the rating

The rating assigned derives strength from the experience of the promoters of more than a decade in the coal trading business which has also helped them to establish a longstanding relationship with reputed clients namely Hindalco Industries Ltd, Vedanta Ltd, Bharat Aluminium Company Ltd, Dalmia Cement to name a few. The rating also factors in the growing scale of operations of the group with revenue increased to Rs 425.58 Cr in FY 2023 (Prov) as against Rs 174.51 Cr in FY 2022 and Rs 68.67 Cr in FY 2021, majorly due to better price realization. Further, the rating favourably factors in the healthy financial risk profile of the Paras Group with a gearing (debt-equity) at 0.67 times as on March 31, 2023 (Prov).
However, these strengths are partially offset by exposure to counterparty risk, volatility in coal prices and changes in regulatory policies and moderate working capital operation. Also, the rating is constrained by the customer concentration risk with almost 50 per cent of total revenue being contributed by top 5 customers.

About the Company

Incorporated in 2007, Paras Power and Coal Benefication Limited (PPCBL), the flagship entity of the Paras group is a Bilaspur (Chhattisgarh) based company engaged in in coal washing, coal crushing, coal trading and handling along with transportation and logistics services. The group is promoted by the Jain family. Currently the business is managed by Mr. Praveen Kumar Jain and later on his son joined Mr. Prashant Kumar Jain. In FY 2018-19 they set up a coal washery and Railway Siding unit at Bilaspur.

About the Group

Established in 2010 Paras Trading Company is proprietorship firm based in Chhattisgarh. It is involved in coal trading and transportation services and started its operation since FY2022. The proprietor of the firm is Mr. Prashant Kumar Jain.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Paras Power and Coal Benefication Limited (PPCBL) and Paras Trading Company together referred to as "Paras Group" (PG). The consolidation is in the view of common management, operational linkages, financial linkages between the entities and a similar line of business.

Extent of Consolidation

Key Rating Drivers

Strengths

Experienced management and established relationship with customers

The promoter, Mr. Praveen Kumar Jain has more than a decade of experience in the coal trading business. The long standing experience of the promoter has helped them to establish comfortable relationships with key suppliers and reputed customers across the country. The clientele majorly consists of client having high credit worthiness and reputations in the market. Some of the key customers of the group are Hindalco Industries Limited, Vedanta Limited, Dalmia Cement Ltd to name a few. Acuité derives comfort from the long experience of the management and believes this will benefit the group going forward, resulting in steady growth in the scale of operations.

Significant improvement in scale of operation

The group has achieved revenues of Rs. 425.58 Cr in FY2023 (prov) as compared to revenues of Rs 174.51 Cr in FY2022, thereby registering a y-o-y growth of 143.87 per cent in FY23. The growth in FY21 was muted on account of disruption in operation due to pandemic outbreak and also the demand for electricity was low which led to decline in demand for coal. However, the top line improved significantly in FY22 and FY23, mainly driven by improvement in realizations along with increase in capacity utilization of coal washery during both the year. The growth in revenue was also driven by high demand from end user industry like iron and steel, power cement etc. The group also maintained healthy EBITDA at Rs. 123.01 crore in FY2023 (prov) vis-à-vis Rs. 50.66 crore in FY2022.

The coal prices have seen significant increase in FY23, largely due to greater fuel and electricity demand followed by the Russia-Ukraine war. As many European countries moved to restricting gas imports from Russia, coal has become the alternative choice to fill the power supply gap, driving up the prices. 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 group is expected to sustain its performance going forward.

The group blends coal rejects with raw-coal purchased, increasing the calorific value of coal rejects and increases its utility as fuel. Given the shortage of coal in FY23, due to slower growth in CIL's coal production, as well as increase in price of imported coal, there is a strong demand from power and cement sectors for high quality coal rejects and blended coal. Hence even with moderation in the operating margin due to increasing input prices, high freight cost for transportation of coal, on account of volatility in diesel prices and higher commission expenses, the EBITDA margin stood high at 28.90 per cent in FY23 (prov), as compared to 29.03 per cent in FY22. PAT margin improved to 22.41 per cent in FY23 (prov), as compared to 17.80 per cent in FY22, with declining finance cost. The ROCE stood robust at 72.71 per cent in FY2023 (provisional), benefitting from the healthy profitability and asset-light nature of the business.
Acuité believes the profitability of the group is expected to remain at a comfortable level in medium term, even with the moderation in coal prices going forward. Further, the stable market position and diversified clientele will mitigate the impact of decline, if any, in demand in any one sector. Sustenance of improved operating performance while maintaining healthy operating margins to remain key rating sensitivity.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and robust debt protection metrics. The tangible net worth of the group improved to Rs. 118.72 Cr as on March 31, 2023 (prov) from Rs.56.45 Cr as on March 31, 2022, aided by sizeable accretion to reserves which kept the capital structure conservative, as reflected by a low gearing of 0.67 times as on March 31, 2023 (prov) as compared to 1.15 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.06 times as on March 31, 2023 (prov) as against 1.79 times as on March 31, 2022. The robust debt protection metrics of the group is marked by Interest Coverage Ratio at 77.81 times and Debt Service Coverage Ratio at 7.73 times as on March 31, 2023 (prov). The surge in earnings in FY2022 and FY2023 supported by minimal debt and high accruals led to significant improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood high at 1.45 times as on March 31, 2023 (prov). Acuité believes that group'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

Moderate working capital management

Working capital management of the group has been moderate, which is reflected from improved GCA days of 102 days as on March 31, 2023 (prov) as compared to 136 days as on March 31, 2022. This is supported by improved and low debtor period of 30 days as on March 31, 2023 (Prov) as compared to 40 days as on 31st March 2022, since the company majorly sells to the reputed clientele and follows an efficient collection mechanism. Further, the inventory holding stood comfortable at 36 days in 31st March 2023 (Prov) as compared to 21 days as on 31st March 2022, benefitting from a low lead time for procurement of domestic coal. Acuité believes that the working capital operations of the group will remain at same level as evident from moderate collection mechanism and comfortable inventory levels over the medium term.

End user sector challenges

Coal washed, transported and traded by the group find their end use by companies involved in power generation, cement manufacturing and steel and metal plants. The consumers that it 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. Further, capital intensive steel and metal plants have been under low potential utilization and have been experiencing reduced productivity amidst a global competition and slowdown in domestic economic conditions. Any policy changes affecting the highly regulated coal industry or its end users will impact the financial risk profile of the group. The ability of the group to grow in such conditions and maintain its profitability will be key monitorable in the future.

Rating Sensitivities

- Sustained growth in revenue and profitability
- Further elongation of working capital management

Material covenants

None

Liquidity Position: Strong

The group's liquidity position is strong with healthy cash accruals and adequate cash and liquid investments. The net cash accruals stood high at Rs. 115.98 Cr as on March 31, 2023 (prov) as against debt repayment of only Rs. 13.48 Cr. over the same period. The group maintains healthy maintains unencumbered FD balance of ~Rs. 15.00 Cr as on March 31, 2023 (prov). The current ratio stood comfortable at 1.64 times as on March 31, 2023 (prov) as compared to 1.05 times as on March 31, 2022. Moreover, the fund based limit remained utilized at only ~19.17 per cent over the last one year ended May, 2023, indicating a considerable buffer from unutilised sanctioned limits. The non-fund based limit remained utilized at ~60.71 per cent over the one year ended May, 2023. Further, working capital management of the group is moderate marked by Gross Current Assets (GCA) of 102 days in 31st March 2023 (prov) as compared to 136 days in 31st March 2022. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook of the group will remain 'Stable' over the medium term on account of sustainable growth in the financial performance of the group 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 group.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	425.58	174.51
PAT	Rs. Cr.	95.36	31.06
PAT Margin	(%)	22.41	17.80
Total Debt/Tangible Net Worth	Times	0.67	1.15
PBDIT/Interest	Times	77.81	17.85

Status of non-cooperation with previous CRA (if applicable)
None

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
- 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 :
Not Applicable

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	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3+ | Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3+ | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB | Stable | Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB | Stable | Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Srijita Chatterjee Lead Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@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.