

June 26, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	9.50	SMERA BB/ Stable (Assigned)
Cash Credit*	8.00	SMERA BB/ Stable (Assigned)
Letter of Credit	30.00	SMERA A4+ (Assigned)
Credit Exposure Limit	0.40	SMERA A4+ (Assigned)

* One way interchangeability from cash credit to letter of credit to the extent of Rs.5.00 crore

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to abovementioned bank facilities of Shree Arihant Trade Links (India) Private Limited (SATL). The outlook is '**Stable**'. The ratings are mainly constrained by significant deterioration in the company's debt protection metrics on account of large debt-funded capital expenditure. The ratings factor in risks related to the company's working capital-intensive operations. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates amidst intense competitive pressure. The aforementioned weaknesses are partially offset by the company's established track record of operations and experienced management.

SATL, incorporated in 1998, is a Gujarat-based company engaged in manufacturing of low-ash metallurgical coke (LAMC). SATL had undertaken debt-funded capex of Rs.20.00 crore towards expansion of installed capacity from 72,000 metric tonnes per annum (MTPA) to 1,44,000 MTPA. The capex was funded through term loan of Rs.9.50 crore and equity capital of Rs.10.50 crore. The additional capacity became operational in April 2014; however, low utilization of installed capacities and decline in prices of LAMC (finished product) against the backdrop of subdued demand resulted in deterioration of the company's debt protection metrics. SATL's debt service coverage ratio (DSCR) declined from 2.05 times in FY2011-12 (refers to financial year, April 01 to March 31) to 1.77 times in FY2012-13. The company's management plans to focus on exports to offset the impact of slowdown in the domestic markets.

SATL's operations are working capital-intensive, as reflected in gross current assets (in days) of 192 days in FY2012-13. The company's inventory holding period and working capital cycle spans 154 days and 61 days respectively in FY2012-13. SATL is exposed to volatility in prices of coking coal. The company is also exposed to foreign exchange fluctuation risk as it sources most of its raw material (coking coal) through imports.

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SATL benefits from its experienced management. The promoters of SATL have around 16 years of experience in the company's line of business.

Outlook: Stable

SMERA believes SATL will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected asset turnover and profitability, or in case of improvement in the company's capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected cash accruals from additional capacities, or in case of deterioration in the company's liquidity position.

About the company

SATL, incorporated in 1998, is a Gujarat-based company promoted by Mr. Sanjay Jain, Mr. Shyam Sunder Jain, Mr. Naresh Kumar Jain and Mr. Suresh Kumar Jain. The overall operations of the company are managed by Mr. Vinit Jain. SATL was initially engaged in trading of coke. The company commenced manufacturing of low-ash metallurgical coke (LAMC) in 2005. SATL has a production unit in Gandhidham (Gujarat), with total installed capacity of 1,44,000 MTPA.

For FY2012-13, SATL registered profit after tax (PAT) of Rs.0.55 crore on revenues of Rs.73.82 crore, as compared with PAT of Rs.0.77 crore on revenues of Rs.90.00 crore for FY2011-12. Further, the company registered revenues of Rs.87 crore (provisional) during FY2013-14. SATL's net worth stood at Rs.23.97 crore as on March 31, 2013, as compared with Rs.22.99 crore a year earlier.

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