

## Press Release

### Shree Arihant Trade Links (India) Private Limited

August 11, 2021

### Rating Upgraded & Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.61.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB/Stable (Upgraded)
<b>Short Term Rating</b>	ACUITE A3+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and reaffirmed the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.61.50 Cr bank facilities of Shree Arihant Trade Links (India) Private Limited (SATL). The outlook remains '**Stable**'.

The rating upgrade on SATL is driven by company's improved business risk profile marked by higher profitability, outgrowth in the expected revenue despite Covid-19 induced lockdown and increase in exports along with diversification in supplier base thereby reducing the concentration risk. The rating upgrade also factors in the improved liquidity position driven by healthy cash accruals.

Further, the rating draws comfort from the long track record of operations, established relationships with customers and suppliers and comfortable financial risk profile of the company. These strengths are partly offset by the working capital intensity in SATL's operations and the susceptibility of profitability due to volatility in input prices and foreign exchange fluctuations.

### About the company

Incorporated in Oct, 1998, Shree Arihant Trade Links (India) Private Limited (SATL) is a Gujarat based company, directed by Mr. Naresh Kumar Jain, Mr. Suresh Kumar Jain, Mr. Vinit Jain and Mr. Nimish Jain. The company is currently engaged in the manufacture of low-ash metallurgical coke (LAMC). Prior to 2005, SATL was involved in trading of coke. The manufacturing unit is located at Gandhidham in Gujarat, having an installed capacity of 144,000 MTPA. The company has recently started trading of ferrous scrap. The raw material requirement of coking coal is imported entirely from Australia via Singapore whereas the ferrous scraps are imported from USA, UK and a few other countries.

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SATL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Established track record of the company and experienced management**

SATL's directors, Mr. Naresh Kumar Jain and Mr. Sanjay Jain have experience of over three decades in this industry. The top management along with a team of capable professionals look after the day-to-day operations of the company. The company has established healthy relationship with its customers who are mainly iron, steel and zinc manufacturing companies, traders and distributors. The company has a reputed customer base of companies like Electrotherm India Ltd. (EIL), Hindustan Zinc Ltd (HZL), JSW Steel Ltd. (JSW), among others. The company exports to countries like Qatar, Morocco, South Korea and Jordan, which forms around 3-5 percent of its total sales, making it one of the very few countries in India exporting LAM coke. Further, the company has been importing its raw material requirement from renowned brands like Arvee International Pte. Ltd., Trafigura Pte. Ltd., since over a decade. Acuite believes the company will continue to benefit from its established track record of operations, management expertise and long standing relations with its customers and suppliers.

- **Significant improvement in profitability margins**

The company witnessed a significant improvement in the margins due to favourable raw materials prices. The operating margin of the company increased sharply to 14.73 per cent in FY2021 (prov.) as compared to 3.32 per cent in the previous year. The PAT margins stood at 9.68 per cent in FY2021 (prov.) as against 0.96 per cent as on FY2020. The increase in margin is due to substantial reduction in raw material i.e., coking coal price in FY21 with a proportionately less reduction in finished goods prices, hence the large delta between the cost and the selling price led to higher margins. The cost of raw materials reduced to \$140/MT in FY21 but currently the prices have recovered to \$245-250/MT. The high profitability margins has translated into healthy RoCE levels which stood at 61.32 per cent in FY2021 (prov.) as against 11.64 per cent in FY2019. Acuite believes any sharp delta in input prices with absence of almost similar delta in realisations can dent profitability significantly and hence sustainability of the margins will remain a key monitorable.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by modest network, very low gearing and robust debt protection metrics. The tangible net worth of the company improved to Rs.51.14 crores as on 31st March, 2021 (prov.) from Rs.32.57 crores as on 31st March, 2020. Gearing of the company stood NIL as on 31st March, 2021 (prov.) as compared to 0.04 times as on 31st March, 2020. The debt of Rs.0.13 crore comprises of long term borrowings of Rs.0.06 crore and unsecured loans of Rs.0.08 crore as on 31st March, 2021 (prov.). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.09 times as on 31st March, 2021 (prov.) as against 1.58 times as on 31st March, 2020. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 19.48 times and Debt Service coverage ratio at 15.27 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 157.17 times as on 31st March, 2021 (prov.). Acuite believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

## **Weakness**

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 161 days in FY2021 (provisional) as compared to 126 days in FY2020. The high GCA days are primarily on account of high amount of advances to suppliers. However, the debtor period is comfortable at 45 days as on March 31, 2021 (prov.) same as in the previous year. Further, the inventory period also stood comfortable at 21 days as on 31st March, 2021 (prov.) as compared to 24 days in the previous year. Going forward, Acuite believes that the working capital management of the company will remain intensive over the medium term as evident from the high amount of advances to the suppliers.

- **Susceptibility to volatility in raw material prices and foreign exchange fluctuation risk**

The prices of raw material (Coking coal) are volatile in nature, and therefore the margins of the company are susceptible to such volatility. The company imports 100 percent of its raw material from Singapore and a few other countries. As a result the company's business is exposed to fluctuations in foreign exchange rate. Also, realisation for LAM coke is exposed to heavy dumping of cheap LAM coke by China and Australia. Hence, volatility in raw material and finished goods prices, government regulations and foreign currency exchange rates are the rating sensitivity factors.

## **Rating Sensitivity**

- Sustainability of profit margins
- Elongation in working capital cycle
- Susceptibility to volatility in raw material prices and foreign exchange rates

## **Liquidity Profile: Strong**

The company's liquidity position is strong marked by net cash accruals of Rs.21.09 crores in FY2021 (prov.) as against no long term debt repayment over the same period. The current ratio stood comfortable at 1.49 times as on 31st March, 2021 (prov.) as compared to 1.22 times as on 31st March, 2020. The fund based limit remained utilised at 7 percent over the seven months ended June, 2021. The cash and bank balances of the company stood at Rs.2.90 crores in FY2021 (prov.) as compared to Rs.3.18 crores in FY2020. The company did not avail any Covid loan or loan moratorium. However, the company's working capital intensity is reflected from Gross Current Assets (GCA) of 161 days in FY2021 (prov.) as compared to 126 days in FY2020. Acuite believes that going forward the company's liquidity position will be sustained due to steady net cash accruals.

### Outlook: Stable

Acuite believes that the outlook on SATL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and sound business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its liquidity position.

### About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	190.89	184.13
PAT	Rs. Cr.	18.47	1.76
PAT Margin	(%)	9.68	0.96
Total Debt/Tangible Net Worth	Times	0.00	0.04
PBDIT/Interest	Times	19.48	6.53

### Status of non-cooperation with previous CRA

Not Applicable

### Material Covenant

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
21-Sep-20	Cash Credit	Long term	8.00	ACUITE BBB- /Stable (Reaffirmed)
	Term Loan	Long term	2.00	ACUITE BBB- /Stable (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A3+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	1.50	ACUITE A3+ (Reaffirmed)
19-Jul-19	Cash Credit	Long term	8.00	ACUITE BBB- /Stable (Reaffirmed)
	Term Loan	Long term	2.00	ACUITE BBB- /Stable (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A3+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	1.50	ACUITE A3+ (Reaffirmed)
02-May-19	Cash Credit	Long term	8.00	ACUITE BBB- (Indicative)
	Term Loan	Long term	2.00	ACUITE BBB- (Indicative)
	Letter of Credit	Short Term	50.00	ACUITE A3+ (Indicative)
	Proposed Term Loan	Long term	1.50	ACUITE BBB- (Indicative)
08-Feb-18	Cash Credit	Long term	8.00	ACUITE BBB- /Stable (Upgraded)
	Term Loan	Long term	2.00	ACUITE BBB- /Stable (Upgraded)
	Letter of Credit	Short Term	50.00	ACUITE A3+ (Upgraded)
	Proposed Term Loan	Long term	1.50	ACUITE BBB- /Stable (Upgraded)

**\*Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB/Stable (Upgraded)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Reaffirmed)
Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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