ICRA

Hemang Resources Limited

Instrument	Amount Rated	Rating Action
Long term fund-based	Rs.12.00 crore	[ICRA]B (Reaffirmed)
Long term non fund-based	Rs. 6.28 crore (reduced from Rs. 6.48 crore)	[ICRA]B (Reaffirmed)
Short term non fund-based	Rs.77.00 crore	[ICRA]A4 (Reaffirmed)
Short term – proposed	Rs. 104.72 crore (increased from Rs. 104.52 crore)	[ICRA]A4 (Reaffirmed)

ICRA has reaffirmed the long term rating for Rs. 18.28 crore[1] fund-based and non fund-based bank facilities of Hemang Resources Limited (HRL) at [ICRA]B (pronounced ICRA B) [2]. It has also reaffirmed the short term rating for Rs. 181.72 crore non fund-based bank facilities and proposed limits of HRL at [ICRA]A4 (pronounced ICRA A four).

The ratings continue to remain constrained due to the weak and volatile performance of HRL besides the concerns arising from parentage of the Bhatia Group, wherein multiple entities are in severe financial stress and have turned non-performing assets (NPAs) with banks. While ICRA is aware that management has cut down operational linkages with group entities, however, given the common promoters, the risk of future operational and financial transactions cannot be negated. Also, ICRA notes a contingent liability of Rs. 181 crore on account of corporate guarantee extended for credit facilities availed by Bhatia Global Trading Limited (rated [ICRA]D).
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Amidst the financial stress in the Bhatia Group, the scale of trading operations undertaken by HRL continues to remain volatile as reflected by de-growth in trading volumes for the third time in the last six years. While the trading volumes were ~20% lower in FY2016 vis-a-vis FY2015, the decline in coal prices further accentuated the de-growth in turnover to ~Rs. 435 crore in FY2016 from Rs. 627 crore in FY2015. Besides the fluctuating scale of operations, the profitability margins have also remained weak and volatile with an OPBDITA margin of 2.1% achieved in FY2016, compared to OPBDITA margin of 2.2% in FY2015 and 3.1% in FY2014. Correspondingly, the profits and cash accruals achieved in FY2016 were weak and considerably lower in FY2016 compared to FY2015. Given the weak profitability and inadequate internal capital generation, the financial profile of HRL continues to be characterised by leveraged capital structure and weak debt coverage indicators as reflected by TOL/TNW of 5.7x and PBDITA/Interest of 1.2x for FY2016. Moreover, absence of long-term sale and purchase contracts exposes the company to risks arising out of volatility in commodity prices and foreign currency fluctuations, which are inherent in the imported coal-trading business.

Going forward, given the financial stress in group entities, any inter-group transactions resulting in funding support to group entities, will be negative for the credit profile of the company. Further, HRL's credit profile will remain sensitive to its ability to report adequate coal trading quantity by optimally utilising its working capital limits, and deliver healthy profitability margins through prudent management of risks arising out of volatility in commodity prices and foreign exchange rates.

Company Profile

Hemang Resources Limited (erstwhile Bhatia Industries and Infrastructure Limited) (HRL) is promoted by the Bhatia Group of Indore, and is into coal trading, wherein coal is imported from coalfields in Indonesia and South Africa, and is sold to domestic companies.

HRL was initially incorporated as BCC Finance Limited and was into the asset financing business. Subsequently in the year FY2007, it surrendered its NBFC certificate and changed the name to Bhatia Industries and Infrastructure Limited before being renamed HRL from March 2015 onwards. Since then, the company has been trading in coal as the main commodity, apart from commodities such as sand and soybean (which is now discontinued). Within the Bhatia Group, HRL is vested with the 'stock and sale' business with focus on catering to small corporates and dealers.

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

In FY2016, HRL achieved an operating income (OI) of Rs. 435.2 crore and profit after tax (PAT) of Rs. 1.3 crore against an OI of Rs. 627.8 crore and a PAT of Rs. 5.8 crore in FY2015 and an OI of Rs. 300.9 crore and PAT of Rs. 2.1 crore in FY2014.

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