ICRA

August 03, 2017

Hemang Resources Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term fund-based bank facilities	12.00	[ICRA]D / downgraded
Long-term non-fund based bank facilities	6.28	[ICRA]D / downgraded
Short-term non-fund based bank facilities	77.00	[ICRA]D / downgraded
Short-term unallocated/proposed	104.72	[ICRA]D / downgraded

*Instrument Details are provided in Annexure-1

Rating action

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

Rationale

The ratings downgrade takes into account liquidity issues being faced by HRL, which has driven multiple instances of letter of credit (LC) devolvement during the past few months. The liquidity has deteriorated as HRL's trading volumes and contribution margins have remained under pressure during the past one year, which has adversely impacted its profitability, debt metrics and cash flow from operations.

Going forward, HRL's debt servicing ability and hence the credit profile will remain sensitive to its ability to report adequate coal trading volumes by optimally managing its working capital cycle, and deliver healthy profitability margins through prudent management of risks arising out of volatility in commodity prices and foreign exchange rates. Given the financial stress in group entities, any intra-group transactions resulting in funding support to group entities, will continue to be a determinant of its credit profile.

Key rating drivers

Credit weaknesses

- **Irregularities in debt servicing:** HRL is facing liquidity issues, which has driven multiple instances of letter of credit (LC) devolvement during the past few months. The liquidity has deteriorated as HRL's trading volumes and contribution margins have remained under pressure during the past one year, which has adversely impacted its profitability, debt metrics and cash flow from operations.

- **Severe financial stress in Bhatia Group entities:** The Bhatia Group of Indore has extensive experience in the imported coal trading business; however, it has witnessed significant erosion in market share over the past few years. This has been driven by the group's weak liquidity position subsequent to large forex losses and failure of its shipping venture. ICRA notes that multiple entities of Bhatia Group are in severe financial stress and have turned non-performing assets (NPAs) with banks. While the management has cut down operational linkages with group entities, however, given the common promoters, the possibility of future operational and financial transactions cannot be

[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.

negated.

- **Leveraged capital structure and weak debt coverage indicators:** Given the weak profitability and inadequate internal accrual generation, the financial profile of HRL continues to be characterised by a leveraged capital structure (TOL/TNW of about 6 times) and weak debt coverage indicators as reflected by interest coverage of 0.4 times in FY2017 and 0.9 times in FY2016.
- **Exposure to foreign currency fluctuation risk:** Given the nature of the coal import business, HRL has high foreign currency payments as most of the coal is imported against letter of credit (L/C). To mitigate the resulting foreign currency fluctuation risk, the Bhatia Group followed a policy of partial hedging till FY2013 whereby about 50% of its dollar exposure used to be hedged. However, subsequent to large forex losses incurred by the group, a more conservative policy of hedging the entire exposure was adopted, wherein it started booking its dollar liability on the date of issuance of the bill of loading. While this increased the cost of goods and impacted profit margins, it mitigated the forex risk.

- **Exposure to volatility in commodity prices:** Coal prices are driven by many factors (like exchange rates, freight rates, alternate fuel supply situation, seasonal factors, emergencies, regulations, resource situation, exportable stocks, technological developments etc.) that are beyond the realm of fundamental demand and supply scenario, thereby driving volatility in prices and hence exposing HRL to risks arising out of volatility in coal prices in the backdrop of business on a stock and sale basis.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
- Corporate Credit Rating Methodology
- Policy on Default Recognition

About the company:
HRL (erstwhile Bhatia Industries and Infrastructure Limited) is promoted by the Bhatia Group of Indore, and is involved in coal trading, wherein coal is imported from coalfields in Indonesia and South Africa, and is sold to domestic companies. It was initially incorporated as BCC Finance Limited and was involved in 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 corporate entities and dealers.

Table 1: Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	435.2	249.6
PAT (Rs. crore)	1.3	-1.0
OPBDIT/ OI (%)	2.1%	1.6%
RoCE (%)	16.8%	NA
Total Debt/ TNW (times)	0.9	NA
Total Debt/ OPBDIT (times)	3.3	8.9
Interest coverage (times)	0.9	0.4
NWC/ OI (%)	10.8%	NA

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Aug 2017	Sep 2016	Jul 2015	Jun 2014
1	Fund-based bank facilities	Long-term	12.00	[ICRA]D	[ICRA]B	[ICRA]B	[ICRA]D
2	Non-fund based bank facilities	Long-term	6.28	[ICRA]D	[ICRA]B	[ICRA]B	[ICRA]D
3	Non-fund based bank facilities	Short-term	77.00	[ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]D
4	Unallocated/proposed	Short-term	104.72	[ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]D

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon Rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating
Cash Credit	-	-	-	12.00	[ICRA]D
Letter of Credit	-	-	-	77.00	
Bank Guarantee	-	-	-	6.28	
Unallocated/proposed	-	-	-	104.72	

Source: HRL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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