January 30, 2020

Adam & Coal Resources Private Limited: [ICRA]BB+(Stable)/ [ICRA]A4+ reaffirmed; rating removed from Issuer Not Cooperating category

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Non-Fund Based	85.00	85.00	[ICRA]A4+; reaffirmed; rating removed from Issuer Not Cooperating category
Long Term / Short Term – Fund based/Non-Fund Based	10.00	10.00	[ICRA]BB+(Stable)/[ICRA]A4+ reaffirmed; rating removed from Issuer Not Cooperating category
Total	**95.00**	**95.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to take into consideration the established track record of Adam & Coal Resources Private Limited (ACRPL) in the coal trading business and its healthy capital structure as illustrated by TOL/TNW of 1.1 times as on March 31, 2019. The ratings continue to factor in the company's limited raw material and forex fluctuation risk on account of the hedging of forex payables and simultaneous fixing of the purchase and sale price with suppliers and customers, respectively.

However, the rating is constrained by ACRPL's high customer concentration and high dependence on timely payments from clients for creditor payments. Given the large value of individual orders and the company's limited liquid buffer, its reliance on timeliness of payment from customers for meetings its LC liabilities remain high.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ACRPL will benefit from the extensive experience of its promoters and the established relationship with its key customer will sustain its revenue and cash accruals.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in coal-trading business and port handling – Presence of more than two decades in the port-based coal and pet coke trading segment has enabled the promoter to establish healthy relationships with customers and suppliers. ICRA expects ACRPL to continue to benefit from the vast experience of its promoters and the established relationship with its key customers will sustain its revenue and cash accruals.

Order-backed procurement shields margin against volatility in coal prices – The company's profitability is protected from both raw material and forex fluctuation risks, to a large extent, due to simultaneous fixing of the purchase and sale price with supplier and customer, respectively, and hedging of forex payables. However, its profitability remains modest on account of the trading nature of its operations with limited value additions.

Comfortable capital structure – On account of high net worth position, the Group's capital structure was healthy as illustrated by TOL/TNW of 1.1 times as on March 31, 2019. The same has supported ACRPL in terms of availment of significant LC limits to support its trading operations. Further, ICRA expects the company's capital structure to remain healthy, going forward as well.

Credit challenges

High customer concentration risk – The Group derives a major portion of its revenue from a single customer in the cement industry and hence its business is highly dependent on the order inflow from this client. Any changes in the procurement policy of its clients or any adverse scenario in the cement industry or weakening of financial profile of its clients may impact ACRPL's operations, going forward. Furthermore, the company primarily trades in thermal coal, which is sourced from two or three suppliers, exposing the Group to supplier and product concentration risks.

High LC liability with limited fund-based credit lines – While the company's LC limits are high at Rs. 145-crore, its liquid cash availability is relatively small and the company has Rs. 5-crore of fund-based line of credit from banks. Hence, ACRPL's ability to honour the LC commitments primarily depends on timely collection from its customers. These apart, its revenue growth, going forward, depend on its ability to increase LC limits.

Liquidity position: Stretched

The company's liquidity profile is stretched due to high dependence on timely payments from clients for creditor payments. The same is on account of the large value of individual orders and non-availability of liquid funds or fund-based credit lines for the payment of its maturing LC liabilities.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the Group improves its customer diversification and improves its liquidity profile.
Negative triggers – The ratings could be downgraded if the Group's financial profile, especially profitability metrics, deteriorates from the existing levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of ACEPL and Adcoal Resources Pte Ltd. Both the companies, together referred to as the ACRPL Group, have strong operational and financial linkages and are under the same management.

About the company

Incorporated in September 2004, ACRPL is involved in trading of steam coal and pet coke, wherein it imports coal from Australia, South Africa and Indonesia, among other countries and caters to customers located in India, primarily in the cement industry. The company has a wholly-owned subsidiary, Adcoal Resources PTE Limited (ARPL), in Singapore, which is involved in the same business. It is promoted by Mr. Tony Adam, who is the Managing Director.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	272.0	477.8
PAT (Rs. crore)	2.1	2.4
OPBDITA/OI (%)	1.4%	1.1%
RoCE (%)	5.6%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	1.1
Total Debt/OPBDITA (times)	0.2	0.7
Interest Coverage (times)	1.7	1.5
DSCR	1.2	1.6

Source: ACRPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="5">Current Rating (FY2020)</th><th colspan="3">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding</th><th colspan="2">Rating</th><th>FY2019</th><th>FY2018</th><th>FY2017</th></tr>
<tr><th>30-Jan-2020</th><th>30-May-2019</th><th>-</th><th>29-March-2018</th><th>-</th></tr>
<tr><td>1</td><td>Non-Fund Based</td><td>Short Term</td><td>85.00</td><td>97.6*</td><td>[ICRA]A4+ (Stable)</td><td>[ICRA]A4+ ISSUER NOT COOPERATING</td><td>-</td><td>[ICRA]A3+ ISSUER NOT COOPERATING</td><td>-</td></tr>
<tr><td>2</td><td>Fund based/Non-Fund Based</td><td>Long Term/ Short Term</td><td>10.00</td><td>-</td><td>[ICRA]BB+(Stable) /A4+</td><td>[ICRA]BB+(Stable) /A4+ ISSUER NOT COOPERATING</td><td>-</td><td>[ICRA]BBB(Stable) /A3+ ISSUER NOT COOPERATING</td><td>-</td></tr>
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Amount in Rs. Crore
** as on March 31, 2019. Only part amount is rated*

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: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-Fund Based	-	-	-	85.0	[ICRA]A4+
NA	Fund based/Non-Fund Based	-	-	-	10.0	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: ACRPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Adcoal Resources PTE LTD	100%	Full

Source: ACRPL

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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.

For more information, visit www.icra.in

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