

Bhatia Coke & Energy Limited

Instrument	Amount Rated	Rating Action
Long Term Fund-Based	Rs. 210.50 crore*	[ICRA]B+ (upgraded)
Long Term Non Fund-Based	Rs. 14.00 crore	[ICRA]B+ (upgraded)
Short Term Non Fund-Based	Rs. 75.50 crore	[ICRA]A4 (reaffirmed)

* includes unallocated amount of Rs. 75.67 crore

ICRA has upgraded the long term rating to [ICRA]B+ (pronounced ICRA B plus)¹ from [ICRA]B (pronounced ICRA B) for Rs. 224.50 crore² bank facilities of Bhatia Coke & Energy Limited. Also, ICRA has reaffirmed the short term rating at [ICRA]A4 (pronounced ICRA A four) for Rs. 75.50 crore short term bank facilities of BCEL. While upgrading the long term rating ICRA takes into account establishment of Trust and Retention Account (TRA) and appointment of concurrent auditor for preventing cash outflows to support the group companies, which are in severe financial distress in relation to BCEL. The ratings however continue to remain constrained by risks arising from large contingent liabilities on account of corporate guarantees extended for loans availed by the group entities³ which are under severe stress and have turned Non Performing Assets (NPAs) with banks.

The ratings are also constrained by BCEL's concentrated exposure to single end user industry for Coke, i.e. steel industry, which has been witnessing demand, pricing and profitability pressures resulting in slowdown in the Coke demand. Because of this, the manufacturing capacity has not been utilized at high levels on consistent basis for last few years, thereby resulting in weak profitability. The company has however utilised this opportunity during last 6-9 months to undertake the maintenance of its coke oven batteries because of which, BCEL's coke sales quantity declined by ~20% in H2FY2016 vis-à-vis H1FY2016. The production in Q1FY17 remains lower by ~45% over previous Q1FY16, whereas sales were down by ~15% in Q1FY17 on YoY basis supported by the clearing of finished goods inventory. Apart from the demand cyclicity from the end user industry, BCEL's profitability is also exposed to fluctuation in commodity prices and foreign exchange rates as it imports the coal used for manufacturing coke.

The ratings continue to take into account favorable location of the coke manufacturing plant near sea port, which eases the flexibility to import coal; and nearness to the manufacturing facilities of key customers. Further, ratings also favorably factor in BCEL's enhanced cost competitiveness on account of complimentary power generation using waste heat recovery and power shortage in state of Tamil Nadu, thereby resulting in strong power sales realization, however the same is dependent on coke production levels as the power is generated from flue gas, thereby resulting in high operating leverage also.

ICRA takes a note of the steady profitability levels in FY2016 which coupled with restructuring of the debt obligations in Q4FY2015 limited the debt repayments during the year and resulted in improvement in balance sheet. As against the earlier peak repayments of Rs. 36 crore, the repayment burden has declined considerably as a moratorium period till January 2017 has been provided for the term loans. Also, residual repayment tenor of term loans has been changed to about 8 years from about 3 years earlier thereby resulting into an improved DSCR. As a result, the accruals of Rs. 28.8 crore in FY2016 were largely deployed towards reduction of creditors, which were earlier stretched by the company given the weakened liquidity profile. Also, as the receivables as on March 2016 were lower compared to March 2015 due to decline in sales in H2FY2016, the total debt as on March 2016 stood lower at Rs. 104 crore vis-à-vis Rs. 123 crore in March 2015. Nonetheless, the other issues related to the group as well as fluctuations in operating performance due to industry issues outweigh these positives.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

³ Ratings of Bhatia Group entities rated by ICRA are as under:

Hemang Resources Limited – [ICRA]B / [ICRA]A4

Bhatia Global Trading Limited – [ICRA]D

Bhatia Coal Washeries Limited – [ICRA]D

Asian Natural Resources (I) Ltd – [ICRA]D – Suspended

BCC Estates Private Limited – [ICRA]D - Suspended

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, BCEL's ability to consistently achieve satisfactory utilization of its capacities, and prudently manage working capital cycle and exposure to volatility in raw material prices / foreign exchange rates would determine its cash accruals and thus will remain key rating sensitivities.

Company Profile

Bhatia Coke & Energy Limited (BCEL) is a part of Bhatia Group of Indore, and is engaged in business of coke manufacturing and power production with installed capacities of 3,40,000 MTPA for coke manufacturing and 22.5MW for power generation.

BCEL was incorporated in June 2008; however, it didn't undertake any operations till business transfer agreement was signed with erstwhile flagship company of Bhatia Group i.e. Bhatia International Limited, which has been renamed to Asian Natural Resources (India) Limited (ANRIL). As a part of Bhatia Group's restructuring plans, coke manufacturing unit having capacity of 1,68,000 MTPA and 10MW power plant based on waste heat recovered from coke oven plant were transferred to BCEL. The effective date of transfer of business to BCEL was October 2009; however, actual transfer happened in February 2011 after appraisal and approval of bankers. Subsequently, in FY2013, BCEL completed brown-field capacity expansion program at its unit in Gummidipoondi, Tamil Nadu, whereby coke manufacturing capacity was doubled to about 3,40,000 MTPA and power generation capacity was increased to about 22.5 MW.

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