Agarwal Coal Corporation Private Limited

March 08, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	145.00	CARE A; Stable	Reaffirmed
Short Term Bank Facilities	1,095.00 (Enhanced from 895.00)	CARE A1	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Agarwal Coal Corporation Private Limited (ACCPL) continue to derive strength from its experienced promoters, long track record of operations of the Agarwal Group (AG) along-with its established presence in imported coal trading business. The ratings also derive comfort from AG's large scale of operations, long-standing relationship with coal suppliers, strong marketing network, diversified clientele and established logistics and warehousing arrangements having presence in key industrial corridors of India. The ratings also factor in significant growth in total operating income (TOI), profitability and cash accruals during FY22 backed by increase in the average sales realisation of imported coal, comfortable capital structure and adequate liquidity.

The ratings, however, continue to remain constrained by the risk associated with volatility in coal prices and foreign exchange rate fluctuations, exposure to weak credit quality of its customers, susceptibility of imported coal trading volume to availability of domestic coal and inherent risks associated with the trading nature of business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the scale of operations marked by coal trading volume in excess of 15 million metric tonne while increasing the proportion of good credit quality customers; along with establishing a track record of no major write-off of bad debt.
- Maintaining PBILDT margin above 8% along with total outside liabilities (TOL)/tangible net worth (TNW) (on a gross debt basis) below unity on a sustained basis.

Negative factors

- Deterioration in the capital structure marked by overall gearing beyond 1.50x (on a gross debt basis) on a sustained basis.
- Decline in profitability margins marked by PBILDT margin of less than 4% on a sustained basis.
- Significant write-off of debtors or increase in debtors.
- Unfavourable movement in forex rate leading to decline in the profit after tax (PAT) margin to less than 1.50% on a sustained basis.

Analytical approach: Combined

The Agarwal Group includes four companies operating in largely similar line of business, i.e., Agarwal Coal Corporation Private Limited (ACCPL), Agarwal Fuel Corporation Private Limited (AFCPL), Agarwal Coal Corporation (S) Pte Limited (ACCSPL) and Agarmin Coal Washery Private Limited (ACWPL). CARE Ratings Limited (CARE Ratings) has taken a combined approach of these four companies for arriving at the ratings of ACCPL and AFCPL due to their common promoters and management along with strong operational and financial linkages among the group companies across coal and iron ore trading business. Please refer List of Entities Combined in Annexure-2 which captures the list of entities considered and the rationale behind combining them.

Outlook: Stable

CARE Ratings believes that AG continues to benefit from its long and established track record of operations in the coal trading business and the group is likely to sustain its comfortable financial risk profile.

Key strengths

Experienced promoters and long track record of operations of the group in coal trading business

Started as a family business in 1973, AG has over the last nearly five decades exhibited significant growth under the guidance of its promoters, and is presently, one of the largest coal importers and traders in India. Purshottam Agarwal and Vinod Kumar Agarwal, both have vast experience in the coal trading and transport business.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established coal sourcing, logistics and warehousing arrangements

AG has developed strong relationship with the miners through professional consultants in Indonesia, Australia and South Africa for import of coal, which has led to timely delivery of the same for the past many years. AG has a practice of not entering into long-term coal sourcing contract since it does not have any corresponding long-term coal supply contracts.

AG is amongst the leading traders of coal in India whereby it offers a complete mine to plant solution to its customers. It benefits from its presence in all major port locations, which results into lower transportation cost making its imported coal at par with the market price. AG hires warehouses available at the port on a rental basis to handle the cargo pertaining to cash and carry business. Recently, the group acquired a company, Surya Exim Limited (SEL), through NCLT which owns a large land parcel near Magdalla, Surat, and is located in close proximity to port and consumption centres. With the acquisition of SEL, the group further expects saving on inventory holding cost.

Long-standing relationship with diversified clientele

AG has developed relationship with various small and mid-sized companies across industries, such as power, steel, textile, paper, brick, cement, etc. The Group has no long-term coal supply contracts which safeguard its profitability in the wake of fluctuations in coal prices and foreign exchange rate movements. The group imports coal through all the major ports of India which saves the logistics cost and ensures timely delivery to the customers. AG has expanded its customer base to countries like Vietnam, China, Thailand, Nepal, Bangladesh and Philippines through its Singapore-based entity, ACCSPL. The top 10 customers contributed around 16% of the total sales of the group during FY22, which indicates diversified customer base.

Large scale of operations with improvement in profitability and cash accruals during FY22

During FY22, the sales volume of AG declined by nearly 7% to 12.71 million metric tonne (MMT) due to sharp rise in global coal prices on account of supply chain challenges. The average sales realisation of the group almost doubled to ₹7,856 per metric tonne (MT) during FY22 due to increase in the prices of imported coal, which has more than off-set the decline in sales volume, leading to significant jump in the TOI. Despite decline in sales volumes, the TOI, profitability, and cash accruals of the group improved significantly in FY22 over FY21. The PBILDT per tonne has improved to over ₹950 per tonne in FY22 as compared with average of ₹400 per tonne in last 3 years ended FY21. The group earned PBILDT of ₹1,023 crore in FY22 compared with ₹318 crore in FY21 supported by inventory gains of more than ₹500 crore during the year. Despite increase in the interest and finance cost during FY22, the net profit of the company grew by 1.5x to ₹619 crore.

The coal prices continue to rise in H1FY23 leading to further growth of over 50% in TOI in H1FY23 over H1FY22. However, with continuous rise in the coal prices, the sales volumes were impacted temporarily. During H1FY23, the sales volume of the group declined by 20% to 5.95 MMT on a y-o-y basis. The operating performance of the company is expected to normalise with sharp correction in coal prices in H2FY23 which may in turn lead to some inventory losses during FY23. However, with correction in coal prices, the sales volumes of the group are expected to improve going forward. On a normalised basis, the group's sales volumes are expected to remain around 13-15 MMT per annum with PBIDLT per tonne of around ₹400/MT in medium term. AG has started trading in Iron Ore from December 2020, however, the contribution is less than 2% of overall group's TOI. With the introduction of export duty on iron ore, the group could not scale-up its exports volumes, and is unlikely to contribute meaningfully to the TOI of the group, going forward.

Comfortable capital structure and adequate debt coverage indicators

With significant improvement in operating profitability during FY22, the PBILDT interest coverage improved to 8.35x in FY22 from 7.33x in FY21. However, it is likely to moderate to 2.5-3x in medium term, as the group may incur higher forex loss on unhedged LC backed exposure due to high volatility in USD/INR exchange rate during FY23.

Despite substantial increase in the Letter of Credit (LC)-backed creditors as on March 31, 2022, followed by sharp rise in coal prices, the overall gearing ratio and TOL/TNW (on a gross debt basis) of AG remained comfortable at 1.39x and 1.86x, respectively. The capital structure is expected to improve in the future as international coal prices have corrected significantly with the normalisation of global supply chain resulting in lower working capital requirement in the form of LCs. Due to trading nature of business, AG has higher reliance on fund and non-fund-based working capital borrowings and thus fixed repayment obligations are negligible. The group avails the LC limits, which is backed by 15% cash margin. Apart from regular limit, the company also avails the LC limits against the 100% cash margin. As on March 31, 2022, the company had a cash and bank balance including margin money and unencumbered surplus of over ₹2,500 crore. On a net debt basis, the overall gearing and TOL/TNW ratio remained very comfortable at 0.13x and 0.59x as on March 31, 2022. The overall gearing and TOL/ TNW ratio are expected to remain comfortable at 0.15x and 0.75x, on a net debt basis, in near to medium term with accretion of profits and expected reduction in the working capital utilisation with fall in coal prices.

Liquidity: Adequate

The liquidity of AG stood adequate backed by unencumbered cash and cash equivalent of more than ₹500 crore as on March 31, 2022, and expected cash accrual of over ₹400 crore in FY23. AG largely meets its working capital requirement through non-fund-based limits, i.e., LCs and supplier credit whereby average utilisation stood high at around 95% for the trailing 12 months ended December 2022 on account of rise in the coal prices. The group recently enhanced its non-fund-based limits by ₹200 crore, which shall further support its liquidity. The group has a healthy current ratio of 1.49 as on March 31, 2022. Moreover, average fund-based working capital limit utilisation of AG remained low at around 32% for the trailing 12 months ended December 2022 indicating unutilised bank lines are more than adequate to meet any incremental working capital needs. The group is likely to maintain unencumbered cash and bank balance of around ₹500 crore going forward, which should also provide cushion to its liquidity.

Key weaknesses

Risk associated with volatility in coal prices and foreign exchange rate fluctuations

AG procures imported coal mainly from Indonesia, Australia and South Africa through its long-standing relationship with the miners, and the prices are mainly linked with the international Coal Price Indexes. The group maintains around 30-40 days inventory to meet spot demand from its customers. Hence, the group is exposed to the short-term variation in imported coal prices on its coal inventory. AG is also exposed to the risk associated with foreign exchange rate fluctuations since its entire imports are denominated in USD, while its sales are in INR. AG imports coal through LC at sight and converts it to supplier's credit or through usance LC. AG has a defined hedging policy in place, which is being reviewed on a quarterly basis by the management wherein it currently hedges around 75% of its total exposure. However, being one of the largest coal traders in India, it has distinctive edge over competitors wherein it has a good bargaining power and is able to pass on most of the volatility in coal prices as well as foreign exchange fluctuations to the customers.

Moderate credit quality of its customers exposing it to the risk of bad debts

AG's operations have remained working capital intensive over the years. Usual credit period allowed to the customers is around 45-90 days as per industry practice. Furthermore, weak credit profile of majority of its customers had resulted in large bad debts during FY17, FY18 and FY22. The group wrote off receivables of around ₹77 crore in FY18 and ₹56 crore in FY22 apart from provision of doubt full debt of ₹16.50 crore in FY22. However, the group has implemented a strict debtor collection policy and capped its exposure to individual customers, thus improving its working capital position. Furthermore, around 10% of the total sales made by the group are generally backed by LC which mitigates the customer's credit risk to an extent. Debtor collection days have improved to 36 days during FY22 as compared with 88 days in FY18.

Going forward, continuous prudent management of credit risk associated with its customers, extent of receivable levels and its impact on AG's leverage and debt coverage indicators shall be key rating monitorable.

Risk associated with the trading nature of operations

AG is exposed to the risks associated with the trading nature of business like inherently low profitability on account of volatility associated with coal prices and foreign exchange rate fluctuations. Apart from that, the group has no long-term coal sourcing and coal supply contracts which reduces the revenue visibility. The group is also exposed to competition in imported coal trading business due to low entry barriers.

Plans to extend loans and advances to the group's real estate entity

Being a trading operation, the group does not have any major capex commitment. However, the group has decided to extend advances of certain pre-defined amount to its associate entity, Agarwal Real Infra LLP, which is into real estate development. The group had approval from its lenders to invest upto ₹160 crore of which the group has already extended advances of ₹70 crore by September 30, 2022. The group has also planned to invest additional ₹225 crore towards its real estate arm. The group has approached its lenders for approval. The total loans and investment into real estate arm is likely to go upto ₹385 crore by March 31, 2024 (around 19% of net worth as on March 31, 2022). CARE Ratings would continue to monitor more-than-anticipated investment in group entities or diversification into unrelated businesses, if any.

Applicable criteria

Policy on default recognition
Consolidation
Notching by Factoring Linkages in Ratings
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading
Policy on Withdrawal of Ratings

About the Group

AG, based out of Indore, Madhya Pradesh, is one of the largest groups engaged in coal trading in India. The group has a presence of around five decades in diversified businesses like coal trading, transport, education, financing, construction, cold storage, ware housing and wind power generation. The group operates out of more than 20 Indian and 10 Indonesian Ports while 25 marketing offices are strategically located in close reach of industries.

(₹ crore)

Combined brief financials of AG	FY21 (UA)	FY22 (UA)	H1FY23 (UA)
Total operating income	5,245	10,187	6,960
PBILDT	318	1,023	561
PAT	255	619	319
Overall gearing (times)*	0.24	0.13	NA
PBILDT Interest coverage (times)	7.33	8.35	2.06

UA: Un-audited; NA: Not available; *Overall gearing is calculated on 'net-debt' basis i.e., the debt considered is after netting-off of bank borrowings to the extent of fixed deposits under lien with the banks as margin money;
Note: 'the above results are latest financial results available'

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Consumable Fuels	Trading - Coal

ACCPL is the flagship company of the Agarwal group of Indore. ACCPL mainly imports coal from Indonesia, Australia and South Africa and supplies to various Indian consumers, including captive power plants, cement, steel, and brick industries. ACCPL is also in to trading of domestic coal purchased through e-auction route from Coal India Ltd. (CIL).

(₹ crore)

Brief Financials of ACCPL	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	3,964	7,422	6,218
PBILDT	251	813	507
PAT	203	480	281
Overall gearing (times)*	0.28	0.21	NA
PBILDT Interest coverage (times)	10.75	8.63	1.95

A: Audited; UA: Un-audited; NA: Not available; *Overall gearing is calculated on 'net-debt' basis, i.e., the debt considered is after netting-off of bank borrowings to the extent of fixed deposits under lien with the banks as margin money.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-3

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of the various instruments rated: Annexure-5

Lender details: Annexure-6

Annexure-1: Details of facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	145.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	1095.00	CARE A1

BG: Bank Guarantee; LC: Letter of Credit

Annexure-2: List of entities combined

Entities Combined	Rationale for Combining
Agarwal Coal Corporation Private Limited	Strong Operational and financial linkages
Agarwal Fuel Corporation Private Limited	Strong Operational and financial linkages
Agarwal Coal Corporation (Singapore) Pte Limited	Strong Operational and financial linkages
Agarmin Coal Washery Private Limited	Strong Operational and financial linkages

Annexure-3: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT*	145.00	CARE A; Stable	-	1)CARE A; Stable (28-Feb-22)	1)CARE A; Stable (02-Mar-21)	1)CARE A; Stable (26-Mar-20)
2	Non-fund-based - ST-BG/LC	ST*	1095.00	CARE A1	-	1)CARE A1 (28-Feb-22)	1)CARE A1 (02-Mar-21)	1)CARE A1 (26-Mar-20)

*Long term/Short term.

Annexure-4: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-6: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact	Analytical contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-79-4026 5620 E-mail: hardik.shah@careedge.in Name: Krunal Pankajkumar Modi Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in Name: Sushil Salecha Lead Analyst **CARE Ratings Limited** E-mail: sushil.salecha@careedge.in

About us:
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