Adi Enterprises

January 19, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Short Term Bank Facilities	**206.50 (Reduced from 356.50)**	**CARE A2 (A Two)**	**Reaffirmed**
Total Bank Facilities	**206.50 (Rs. Two Hundred Six Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Adi Enterprises (AE), CARE has considered the combined business and financial profiles of two entities, namely, Adi Enterprises and Adi Tradelink (AT; rated CARE A2), collectively known as Adi group as they operate in same line of business and are jointly managed by a common set of partners.

The ratings assigned to the bank facilities of AE continue to derive strength from vast experience of the partners of Adi group in coal trading business, established relationship with its key supplier i.e. Adani group, diversified customer base, comfortable capital structure and debt coverage indicators with adequate liquidity. The ratings also factor in decline in its scale of operations which remained at moderate level, improvement in its profitability and healthy return from sale of sale of investments during FY21 (refers to period April 1 to March 31).

The ratings, however, continues to remain constrained due to vulnerability of its profitability to volatility in commodity prices & foreign exchange rates and lack of in-house logistics facilities. The ratings further constrained due to susceptibility of imported coal trading volume to improved availability of domestic coal, inherent risks associated with trading nature of business apart from risk of withdrawal of partners' capital due to partnership nature of its constitution.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations marked by TOI of more than Rs.4,000 crore on a sustained basis while ensuring prudent risk management against volatility associated with coal prices and foreign exchange rate fluctuations
- Improvement in profitability margins marked by PBILDT margin above 5% on sustained basis along with TOL/TNW below 1.50 times on a sustained basis
- Expansion of operations to other ports so as to cater to a geographically diversified clientele

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in capital structure marked by overall gearing beyond 1.50 times
- Decline in profitability margins marked by PBILDT margin of less than 3% on a sustained basis
- Significant withdrawal of partners' capital and reduction in available liquidity on a combined basis
- Adverse regulatory changes significantly affecting its coal trading volumes and profitability

Detailed description of the key rating drivers

Key Rating Strengths

Experienced partners

AE and AT are part of Ahmedabad based Adi group which is engaged in coal trading business for more than seven decades. Adi group is presently managed by Mr. Utkarsh Shah along with other family members. Mr. Utkarsh Shah, a science graduate, has been engaged in the business of coal/lignite transportation, coal trading and real estate for the last three decades. He is well supported by his nephew, Mr Kunal Shah who is a commerce graduate and looks after the sales, marketing and finance functions. All the key positions of the group are occupied by family members.

Established relationship with Adani Group along with strong marketing network and diversified customer base

Adi group has developed a strong relationship with Adani group of over 15 years. Previously, Adi Group was sourcing major coal requirement from Adani Enterprises Limited (AEL; rated: CARE A; Stable/ CARE A1) in the domestic market. However, for the past around 8 years, Adi group has started procuring coal from overseas market through Adani Global PTE Limited (Singapore) and Adani FZE (UAE), which belongs to Adani Group. However, Adi group has a practice of not entering into long term coal sourcing contract since it does not have any corresponding long-term coal supply contracts.

Further, Adi Group has a strong marketing network with diversified clientele comprising players from steel, chemical, paper, textile industries and local coal traders; on account of which it is generally insulated from any downswing in any particular sector(s). Top ten customers contributed around 28% of total operating income of the group during FY21 indicating a well-diversified customer base which mitigates the risk associated with moderate credit quality of many of its customers.

Decline in scale of operations to a moderate level albeit improvement in profitability during FY21

In August 2020, Adi group has entered into MoU with Adani group for Hazira and Navlakhi ports, wherein group shall indent coal on behalf of Adani group and earn fixed commission on it. Further, due to nation-wide lockdown and restriction on business operations across the industries, the demand of coal has been impacted in H1FY21 and logistics disruptions around the globe had tightened coal supplies. These has resulted in significant decline (~56%) in sales volumes from 8.66/ MMT in FY20 to 3.79/MMT

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

in FY21, the scale of operations has been declined from Rs.3547.63 crore in FY20 to Rs.1596.06 crore in FY21. Further, during H1FY22 TOI remained at Rs.712.18 crore.
During FY21, with commission income and better spread, profitability had improved marked by PBILDT margin of 5.20% compared to 2.89% in FY20. Also, group has reported foreign exchange gain of Rs.0.29 crore as compared to foreign exchange loss of Rs.16.35 crore in FY20. During FY21, Adi group has reported healthy gains from sale of investments (shares and mutual funds) which resulted in growth in PAT margin from 1.81% in FY20 to 10.92% in FY21.

Comfortable capital structure and debt coverage indicators
During FY21, Adi Group has repaid unsecured loan of Rs.115.55 crore extended by partners and related parties and there was lower utilization of its working capital limits which has resulted in improvement in overall gearing (including acceptances) from 0.84 times as on March 31, 2020 to 0.32 times as on March 31, 2021. Further, due to improved profitability, debt coverage indicators also improved and remained comfortable during FY21, marked by interest coverage of 9.55x (PY- 8.41x) and TD/GCA of 0.99x (PY – 5.65x).

Key Rating Weaknesses
Susceptibility of its profitability to fluctuations in foreign currency exchange rate and coal prices
There are various factors affecting the coal import to India but the major ones are domestic and global demand-supply scenario, logistics constraints in transportation of coal in India and forex rates. Historically, the coal prices have exhibited high volatility due to factors mentioned above. Adi group procures coal from overseas market which exposes its profitability to volatility in forex rates. However, majority of forex risk is mitigated as Adi group hedges entire forex exposure through forward contracts. Further, Adi Group maintains minimal open inventory hence the profitability is largely insulated from volatility in coal prices.

Lack of in-house logistics facilities
Adi Group does not have in-house logistic facilities and the same are being availed from third party vendors which increase its dependency on third party vendors for its logistic requirement and restricts the operating efficiency.

Inherent risk associated with trading business along with threat from domestic production
The trading business is highly fragmented and characterized by the presence of large number of organized and unorganized players, which leads to intense competition. Moreover, the entry barriers in coal trading remain low thereby translating into stiff competition for the company. Adi Group has no long-term coal sourcing and coal supply contracts which its suppliers or customers, which may limit its revenue visibility. However, the promoter's presence in coal trading business for more than seven decade reduces these risks since it has been able to get repeat business from its key customers in diversified industries.

Partnership nature of constitution
Being a partnership firm, both AE and AT are susceptible to risk associated with withdrawal/ transfer of capital by the partners which may lead to deterioration in the firm's capital structure and liquidity. During FY21, partners have withdrawn Rs.81.98 crore of reported profit.

Liquidity: Adequate
Adi Group's liquidity position has remained adequate marked by lean operating cycle, sufficient cash accruals and healthy investment, cash and bank balance resulting in net debt free position. Fund based working capital utilization of Adi group remained negligible for past 12 months ended December 2021, indicating unutilised bank lines are more than adequate to meet any incremental working capital needs. Adi Group largely meet its working capital requirement through non-fund based limits i.e. LCs whereby despite closure of bank facilitates of Rs.85.00 crore (net), utilization remained comfortable at 31% for the trailing 12 months ended December 2021.
During FY21, Adi Group has generated Rs.78.41 crore of cashflow from operations. Further, Adi group has net debt free position as on March 31, 2021 with Rs.478.40 crore in the form of investments, cash and bank balance with current ratio of 2.06x.

Analytical Approach: Combined
CARE has considered the combined operational and financial performance of AE and AT since both these entities are engaged in similar line of business and operate under common management platform.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

About the Adi Group
Established in October 2006, AE and AT are partnership firms engaged in trading of imported steam coal in domestic market. Adi group presently operates through five ports of Gujarat i.e. Mundra, Navlakhi near Kutch, Dahej, Hajira and Pipavav.

Brief Financials (Rs. crore)	Adi Group			Adi Enterprises		
	FY20 (UA)	FY21 (UA)	H1FY22 (UA)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	3547.63	1596.06	712.18	2274.98	1075.47	346.95
PBILDT	102.45	83.02	NA	40.15	53.74	NA
PAT	64.19	174.25	NA	27.27	46.09	NA
Overall gearing (times)	0.84	0.32	NA	0.90	0.28	NA
Interest coverage (times)	8.41	9.55	NA	6.28	13.86	NA

UA: Unaudited line by line addition by analytical team after adjusting inter group transactions, A: Audited, Prov.: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-Short Term	-	-	-	-	206.50	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-Short Term	ST	206.50	CARE A2	-	1)CARE A2 (07-Jan-21)	1)CARE A2 (30-Dec-19)	1)CARE A2 (03-Jul-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Capital structure and debt coverage	Net debt/ EBITDA <= 2.50x, TOL/ TNW <= 3.25x, EBIDTA/ Interest => 2.00x

Annexure 4: Complexity level of various instruments rated for this firm

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-Short Term	Simple

Annexure 5: Bank Lender Details for this firm
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Akhil Goyal
Contact no.: +91-79-4026 5621
Email ID: akhil.goyal@careedge.in

Relationship Contact
Name: Deepak Purshottambhai Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**