

Adi Enterprises

September 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Short Term Bank Facilities	166.50	CARE A4+; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A3;

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) vide its press release dated March 21, 2024, placed the ratings of Adi Enterprises (AE) under the 'Issuer non-cooperating' category as AE failed to provide information for monitoring the ratings despite repeated requests vide e-mail communications dated March 06, 2024, March 04, 2024, February 29, 2024, February 27, 2024, February 23, 2024, January 09, 2024, among others and numerous phone calls. AE continued to be non-cooperative. Thus, in pursuant to the extant Securities and Exchange Board of India (SEBI) guidelines, CARE Ratings has reviewed the ratings on the basis of the best available information which however, in CARE Rating's opinion is not sufficient to arrive at a fair rating.

Further, the revision in the ratings of AE is pursuant to SEBI's circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status".

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

For arriving at the rating of AE, CARE Ratings considered the combined business and financial profiles of two entities, namely, AE and Adi Tradelink (AT; rated CARE A4+; Issuer not cooperating), collectively known as Adi group as they operate in same line of business and are jointly managed by a common set of partners. The rating continues to remain constrained due to susceptibility of its profitability to fluctuations in foreign currency exchange rate and coal prices, lack of in-house logistics facilities, inherent risks associated with trading nature of business apart from withdrawal of partners' capital due to partnership nature of its constitution. The rating also take cognizance of dip in the profitability margins along with deterioration in capital structure and debt coverage indicators during FY23 (Audited; period refers from April 01 to March 31). The rating, however, 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 and improvement in its scale of operations. The rating also factors in adequate liquidity position of the group.

Analytical approach: Combined

CARE Ratings 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.

Detailed description of key rating drivers:

At the time of the last rating on March 21, 2024, the following were the rating weaknesses and strengths:

Key weaknesses

Deterioration in capital structure and debt coverage indicators

Capital structure deteriorated and remained leveraged as marked by overall gearing at 5.34x as on March 31, 2023, as against 0.66x as on March 31, 2022. Substantial deterioration is on account of erosion of tangible net worth owing to withdrawal of partners' capital during FY23. Tangible net worth remained at Rs.86.29 crore as on March 31, 2023, as against Rs.399.98 crore as on March 31, 2022. Total debt also increased on account of infusion of unsecured loan and higher outstanding balance of LC backed creditors as on balance sheet date. Consequently, debt coverage indicators also weakened due to lower absolute profitability and higher finance charges with increase in debt. Interest coverage ratio declined to 2.77x in FY23 as against 8.05x in FY22. Total debt/GCA deteriorated to 6.62 years as on March 31, 2023, from 1.04 years as on March 31, 2022.

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

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

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 nature of 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 with 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 FY23, on combined basis, partners have withdrawn ~Rs.300 crore of capital (netting off infusion of unsecured loans from promoters group).

Key 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 jointly managed by Kunal Shah and his brother Nrupal Shah along with other family members. Both have vast business experience and looks after the overall operations of the Adi group. 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 for almost two decades. Previously, Adi Group was sourcing major coal requirement from Adani Enterprises Limited (AEL; rated: CARE A+; Positive/ CARE A1+) in the domestic market. Over the years, Adi group has started procuring coal from overseas through Adani Global PTE Limited (Singapore) and Adani FZE (UAE), which belongs to Adani Group. However, Adi group has a practice of not entering 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 sector(s). Top ten customers contributed around 63% and 66% of total operating income (TOI) of the group during FY23 and FY22 respectively indicating a moderately-diversified customer base. Adi group is expected to continue to benefit from its established relations with its customers.

Improvement in scale of operations albeit dip in profitability margins

Scale of operations of Adi Group improved sequentially marked by TOI of Rs.3232.40 crore in FY23 as against from Rs.1282.15 crore in FY22 on account of volume growth (2.57MMT in FY23 from 1.66MMT in FY22) as well as higher price realisation. Further, during H1FY24, TOI for the group remained at Rs.2308.59 crore. However, profitability margins dipped during FY23 marked by operating margins at 4.32% in FY23 from 13.60% in FY22. Margins in FY22 remained substantially high owing to commission income and better spread with increasing trend of coal prices. PAT margins remained at 2.11% in FY23 from 19.90% in FY22. Decline in PAT margin is on account of lower profit from sale of investments in FY23 as compared to FY22. Consequently, GCA also declined to Rs.69.64 crore in FY23 from Rs.255.49 crore in FY22.

Environment, social, and governance (ESG) risks: Not Applicable**Applicable criteria**

[Policy in respect of non-cooperation by issuers](#)

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Wholesale Trading](#)

[Rating Outlook and Rating Watch](#)

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, Gas & Consumable Fuels	Consumable Fuels	Trading - Coal

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		
	FY22 (UA)	FY23 (UA)	H1FY24 (Prov.)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)
Total operating income	1282.15	3232.40	2308.59	600.11	947.89	318.02
PBILDT	174.36	139.51	NA	75.12	54.66	NA
PAT	255.18	68.35	NA	142.17	29.50	NA
Overall gearing (times)	0.66	5.34	NA	0.16	6.97	NA
Interest coverage (times)	8.05	2.77	NA	14.00	3.78	NA

UA: Unaudited line by line addition by analytical team after adjusting inter group transactions, A: Audited, Prov.: Provisional, NA: Not Available, 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 last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based/Non-fund-based-Short Term		-	-	-	166.50	CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-Short Term	ST	166.50	CARE A4+; ISSUER NOT COOPERATING *	-	1)CARE A3; ISSUER NOT COOPERATING * (21-Mar-24)	1)CARE A2 (28-Dec-22)	1)CARE A2 (19-Jan-22)

*Issuer did not cooperate; based on best available information.

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-Short Term	Simple

Annexure-5: 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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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