

Adi Tradelink

December 28, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Short Term Bank Facilities	163.50	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	163.50 (₹ One Hundred Sixty-Three Crore and Fifty Lakhs Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

For arriving at the rating of Adi Tradelink (AT), CARE has considered the combined business and financial profiles of two entities, namely, Adi Enterprises and Adi Enterprises (AE; 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 rating assigned to the bank facilities of AT 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 decrease in its scale of operations which remained at moderate level, improvement in its profitability and healthy return from sale of investments during FY22 (FY refers to the period from 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 jointly managed by Mr. Kunal Shah and his brother Mr 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 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. Over the 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.

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

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 66% of total operating income of the group during FY22 indicating a moderately-diversified customer base. Adi group is expected to continue to benefit from its established relations with its customers.

Decrease in scale of operations but improved profitability during FY22

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. FY22 was first year of indent system from two ports while continued trading activity from balance ports, hence, there was significant decline in sales volumes during last couple of years marked by 8.66/ MMT in FY20 to 3.79/MMT in FY21 to 1.66/ MMT in FY22. Subsequently Adi group has reported decrease in TOI from Rs.3533.34 crore in FY20 to Rs.1582.44 crore in FY21 [i.e. ~55% Y-o-Y dip] to of Rs.1282.15 crore in FY22 [~19% Y-o-Y dip].

However, with commission income and better spread owing to increasing trend in coal prices which led to inventory gain, operating margin marked by PBILDT margin of Adi group has improved significantly from 4.39% in FY21 to 13.60% in FY22. Going forward same is expected to normalize in near term.

Comfortable capital structure and debt coverage indicators

Adi Group's capital structure remained comfortable as marked by its overall gearing of 0.66 times as on March 31, 2022, though it increased from 0.16 times as on March 31, 2021 on the back of significant increase in unsecured loans from promoters and withdrawal of capital as on March 31, 2022. Networth base continue to remain healthy around Rs400 crore on group basis. Going forward, with moderate utilization of working capital limits and healthy networth base, capital structure is expected to remain comfortable.

Debt coverage indicators of Adi Group remained relatively stable as compared to previous year at comfortable level as marked by interest coverage ratio of 8.05 times and total debt / GCA of 1.04 times in the year ended on March 31, 2022.

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 FY22, on combined basis, partners have withdrawn ~Rs.131 crore of capital.

Liquidity: Adequate

Adi Group's liquidity position has remained adequate marked by lean operating cycle, healthy cash accruals, liquid investments and cash and bank balance coupled with low utilization of working capital limits. Fund based working capital utilization of Adi group remained negligible for past 12 months ended September, 2022 indicating unutilized bank lines are more than adequate to meet any incremental working capital needs over the next one year. Adi Group largely meet its working capital requirement through non-fund-based limits i.e. LCs whereby also utilization remained comfortable at less than 50% for the trailing 12

months ended September 2022. Further, Adi group has net debt free position as on March 31, 2022 with Rs.522 crore in the form of investments and cash and bank balance.

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 Tradelink		
	FY21 (UA)	FY22 (UA)	H1FY23 (Prov.)	FY21 (A)	FY22 (A)	H1FY22 (Prov.)
Total operating income	1582.44	1282.15	875.45	560.71	850.72	496.54
PBILDT	69.40	174.36	NA	13.49	88.64	NA
PAT	174.25	255.18	NA	128.17	113.01	NA
Overall gearing (times)	0.16	0.66	NA	0.03	1.52	NA
Interest coverage (times)	7.98	8.05	NA	2.80	5.44	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 (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

Annexure-1: Details of 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 along with Rating Outlook
Fund-based/Non-fund-based-Short Term	-	-	-	-	163.50	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 (₹ 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/Non-fund-based-Short Term	ST	163.50	CARE A2	-	1)CARE A2 (19-Jan-22)	1)CARE A2 (07-Jan-21)	1)CARE A2 (30-Dec-19)

* Long term / Short term

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

Bank Facilities	Detailed explanation	
A. Financial covenants	AT to maintain followings:	
	Covenant	Threshold
	Net Debt / EBITDA	$\leq 2.50x$
	TOL/TNW	$\leq 3.25x$
	EBITDA / Interest	$\geq 2.00x$
B. Non-financial covenants	None	

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

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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