

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Indo Unique Flame Limited

April 03, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
Bank Facilities- Long Term	28.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
Bank Facilities- Short Term	39.00*	IVR A4+ (IVR A Four Plus)	Reaffirmed
Total	67.00		

*Rs7crore sub limit of LC within BG

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Indo Unique Flame Limited (IUFL) continues to derive comfort from its experienced promoters with long track record of operations, strategic location advantage, diversified revenue profile and it's above average capital structure. However, these rating strengths continues to remain constraints by its small Scale of operations, susceptibility of profit margin to fluctuations in input prices, working capital intensive nature of operations and moderate debt protection metrics. The rating also consider customer concentration in revenue profile.

Key Rating Sensitivities:

Upward Factor:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis, which is significantly higher than Infomerics expectations.
- Sustenance of capital structure and improvement in debt protection metrics with TOL/TNW to be maintained below 2x and interest coverage to remain above 2x
- Effective working capital management with improvement in operating cycle and liquidity and average utilisation in bank borrowings to remain below 90% on a sustained basis

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Downward factor:

- Dip in operating income and/or profitability impacting the debt coverage indicators,
- Deterioration in the capital structure with overall gearing to more than 1.5x and interest coverage to below 1.2x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and long track record of operations

IUFL was set by Mr. Hariom Choudhary who looks after technicalities of plant, bulk order and the day-to-day affairs of the company are looked after by Mr. Vipul Choudhary, Director (son of Mr. Hariom Choudhary). IUFL has been engaged in the coal business for over three decades. Prior to setting up of the coal washery at MIDC, Wani, Maharashtra in 1999, the company was engaged in coal trading. Long standing presence in the industry has helped the company build established relationship with both customers and suppliers.

Above average capital structure

The company has a leveraged capital structure mainly on account of its modest net worth base of Rs.41.27 crore as on March 31, 2019. The debt-equity and overall gearing ratio of the company continued to stand satisfactory at 0.01x & 0.57x respectively as on Mar.31, 2019 vis-a-vis 0.02x & 0.55x respectively as on March 31, 2018. Total indebtedness of the company as reflected by the TOL/TNW also showed marginal improvement from 1.41x in as on March 31, 2018 to 1.36x as on March 31, 2019 and continued to remain satisfactory.

Diversified revenue profile

IUFL derives 93% of its operating income from sale of coal, 4.60% is composite revenue from transportation of coal and job work and rest other operating income in FY19. The total operating income of the company registered a y-o-y growth of ~5% in FY19 over FY18. The growth is driven by increase in revenue from job work and sales. Further, during 10MFY20, the company has also achieved a total operating income of ~Rs.53.25 crore.

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Strategic location advantage

IUFL washeries are located in Wani and Punwat near the border of coal belt, also known as diamond city. Both washery are well connected via railway and road and strategically located near the mines which helps in acquiring continuous supply of raw material- coal and minimizing the transportation cost.

Key Rating Weaknesses

Small Scale of operation

The operation of the company continues to remain small with a total operating income of Rs.62.17 crore in FY19. The small scale of operations restricts the financial risk profile of the company largely. Further, in 10MFY20, the company has achieved a turnover of Rs. 53.25 crore. Infomerics expects that the scale of operations of the company will continue to remain small in the near to medium term.

Susceptibility of margins to volatility in raw material prices

The company's margins are susceptible to volatility in raw material prices. The key raw material required is coal, which is highly susceptible to raw material prices.

Customer concentration in revenue profile

IUFL is exposed to customer concentration risk as the top ten customers comprised ~84% of its sales in FY19. Further, the company derived ~41 % of its sales from top two customers.

Working capital intensive operations

The operations of the Company are highly working capital intensive as reflected in its elongated operating cycle of 437 days in FY19 account of the stretch in receivables and average inventory period; which stood at 370 days and 157 in FY19 (344 days and 204 days in FY18). Further, the fund based working capital limit utilisation of the company remained high at ~92% during the past 12 months ended January, 2020.

Moderate debt protection metrics

The debt protection parameters of the company remained moderate with the interest coverage ratio of 1.43x and Total debt/GCA increase to 15.27x in FY19 compared to 14.59x in FY18 due to increase in utilisation of bank borrowing.

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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Stretched

The liquidity is stretched due to its working capital intensive nature of its operations marked by elongated operating cycle. Further, its bank limits remained highly utilized to the extent of ~92% during the past 12 months ended January, 2020 indicating a low liquidity buffer. However, comforts can be derived from by its expected gross cash accruals in the range of ~Rs.2.5-4.5 crore against small repayment obligations during FY20-22.

About the Company

Indo Unique Flame Ltd (IUFL) was incorporated in 1987 by Mr. Hariom Choudhary. Initially, the Company was engaged in coal trading. Subsequently in 1999, the promoters set up a washery at MIDC, Wani, Maharashtra. At present, the company is engaged in coal trading and has two coal washeries, one at MIDC, Wani and the other at Punwat with an installed capacity of 4.4 million tons

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-18	31-03-19
	Audited	Audited
Total Operating Income	59.08	62.17
EBITDA	7.22	9.24
PAT	0.82	1.01
Total Debt	32.26	35.28
Tangible Net worth	40.26	41.27
EBITDA Margin (%)	12.22	14.86
PAT Margin (%)	1.38	1.63
Overall Gearing Ratio (x)	0.55	0.57

*Classification as per Infomerics' standards

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Status of non-cooperation with previous CRA: Issuer not cooperating by CRISIL vide press release dated Oct 18, 2019 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	28.00	IVR BB+/Stable	IVR BB+/Stable (March 29, 2018)	-	-
2.	Bank Guarantee	Short Term	39.00	IVR A4+	IVR A4+ (March 29, 2018)	-	-

**Rs7crore sub limit of LC within BG*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio.

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Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	28.00	IVR BB+/Stable
Short Term Bank Facilities-Bank Guarantee	-	-	-	39.00*	IVR A4+

*Rs.7 crore sub limit of LC within BG