

# Ratings



## Rating Rationale

November 11, 2019 | Mumbai

## ACB India Limited

*Rating downgraded to 'CRISIL BBB' ; placed on 'Watch Negative'*

### Rating Action

<b>Rs.105 Crore Non Convertible Debentures</b>	<b>CRISIL BBB (Downgraded from 'CRISIL A-/Stable' ; Placed on 'Rating Watch with Negative implications')</b>
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL has downgraded its rating on the non-convertible debentures of ACB India Limited (ACBIL; part of the Aryan group) to **'CRISIL BBB'** from **'CRISIL A-/Stable'**, while placing the rating on **'Rating Watch with Negative Implications'**.

The downgrade reflects weakening of the group's financial risk profile driven by a weaker operating performance in the coal beneficiation segment. Mine utilisation has come down to 41% in first six months of fiscal 2020 from 56% in corresponding period of previous fiscal. That's primarily on account of flooding in some of the mines, and lower output of Coal India Ltd (CIL; 'CRISIL AAA/Stable/CRISIL A1+', CCR AAA') leading to decrease in washing volumes of ACBIL. Volumes and profitability are expected to improve once these issues are resolved along with renegotiation of washing contracts at higher prices for some customers. However, operating profits are likely to remain constrained in fiscal 2020, leading to the debt to EBITDA (earnings before interest, tax, depreciation, and amortisation) ratio remaining above 4-4.2 times for the fiscal, against previous expectation of 3.5 times. The interest coverage ratio is likely to be at 2.3 times.

Further, the ratings have been placed on watch negative in view of the risks associated with invocation of shortfall guarantee that ACBIL has provided to lenders in TRN Energy Pvt Ltd (TRN). TRN has defaulted on principal repayment to its lenders in September-October 2019. The company has in the past provided support to TRN in the form of inter-corporate deposits (outstanding Rs 366 crore as on September 30, 2019). The financial profile of the company could significantly deteriorate if its guarantee is invoked to service debt obligation in TRN.

CRISIL will remove the rating from watch and take a final rating action once clarity emerges about the invocation of shortfall guarantee provided by ACBIL along with timely debt servicing in TRN going forward.

The rating continues to reflect the Aryan group's leadership position in the coal beneficiation industry, and steady operations of its coal reject-based power plants. These strengths are partially offset by an average financial risk profile.

### Analytical Approach

For arriving at the rating, CRISIL has combined the business and financial risk profiles of ACBIL and its subsidiaries: Spectrum Coal and Power Ltd (SCPL), Aryan Energy Pvt Ltd (AEPL; 'CRISIL BBB-/CRISIL A3 (Watch Negative)'), Aryan Clean Coal Technologies Pvt Ltd (ACCTPL), Kartikay Coal Washeries Pvt Ltd (KCWPL), and SV Power Pvt Ltd (SVPPL). CRISIL has also combined the business and financial risk profiles of associate company, Global Coal and Mining Pvt Ltd (GCMPL; 'CRISIL BBB/CRISIL A3+; Watch Negative'), as ACBIL and its promoters hold a majority equity stake in this company. GCMPL is also in the same business (coal washing) and benefits from business synergies with ACBIL. All these companies are collectively referred to as the Aryan group.

CRISIL has moderately integrated (to the extent of equity contribution and cost overrun funding) the business and financial risk profiles of two of ACBIL's thermal-power project special purpose vehicles (SPVs), Maruti Clean Coal and

Power Ltd (Maruti) and TRN. That's because the debt contracted under these SPVs will not have any recourse to ACBIL post commissioning of the power plants. CRISIL believes ACBIL will not undertake capital expenditure in its other SPVs (Aryan MP Power Generation Pvt Ltd, Aryan Chhattisgarh Power Generation Pvt Ltd, and Spectrum Power Generation Ltd) over the medium term, because of the absence of fuel-linkage agreements and the early stage of these projects.

*Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.*

## Key Rating Drivers & Detailed Description

### Strengths

**\* Leadership position in the coal beneficiation industry**  
The Aryan group is the market leader (estimated market share of 45%) in the coal beneficiation industry, with total installed capacity of 76.71 million tonne per annum (mtpa) across 19 locations in Chhattisgarh, Odisha, Maharashtra, and Telangana. The group also has a good performance track record with sales contracts renewed regularly, supported by the strategic location of its coal washeries and large capacity. The group should sustain its market leadership position over the medium term.

The market leadership in the coal-beneficiation industry provides a considerable competitive advantage through economies of scale, leading to healthy operating cash flow. This business contributed 65% to revenue and 70% to operating profit in fiscal 2019. Driven by the coal beneficiation business, operating income grew 16% over the six fiscals through 2015, while the operating margin remained well over 35%. However, during fiscals 2016 and 2017, the margin in coal operations was affected by reduced demand from key customers due to low power demand. Sales were also affected by delay in commencement of operations at Maruti. Furthermore, constraints in coal evacuation adversely affected availability of coal for beneficiation during fiscal 2018. However, with increasing power demand and resolution of coal evacuation issues, the beneficiation volume had increased to 21.03 million tonne in fiscal 2019 from 16.3 million tonne in the previous fiscal. However, with flooding of mines and lower production of some of CIL mines, mine utilisation has come down in first six months of fiscal 2020. Volumes and profitability are expected to improve once these issues are resolved along with renegotiation of washing contracts at higher prices for some customers.

**\* Steady operations of coal reject-based power plants**  
The group operates 493-megawatt (MW) coal-reject-based power plants (330 MW under ACBIL, 100 MW under SCPL, and 63 MW under SVPPL). These plants enjoy steady profitability and operations as the cost of coal rejects is low compared with that of raw coal, leading to lower cost of production. Due to a fire in its turbine, SVPPL has not been operational since July 2017 and recommenced operations in March 2019. The other power plants have healthy plant load factor (PLFs) of over 85%. In fiscal 2018, lower availability of coal rejects led to higher reliance on costly e-auction coal, adversely impacting the operating margin. With renewal of the Andhra Pradesh contract and improvement in beneficiation volumes, operating profitability had improved in fiscal 2019. Availability of fuel at moderate prices leading to healthy PLFs will remain a key monitorable over the medium term.

### Weakness

**\* Weakening financial risk profile**  
Sizeable debt and low EBITDA have considerably weakened the financial risk profile. Increase in investment in group entities to Rs 2,365 crore as of September 30, 2019 (Rs 2,135 crore as on March 31, 2017), representing 80% of the networth, has precluded debt reduction. Debt has remained largely stable at Rs 3,151 crore as on March 31, 2019, against Rs 3,221 crore as on March 31, 2018. With improvement in coal beneficiation volumes in fiscal 2019, debt to EBITDA and interest coverage ratios improved to 4.6 times and 2.3 times, respectively, from 5.5 times and 1.9 times, respectively, in fiscal 2018. However, in fiscal 2020, with stress in TRN, and SVPPL operating at low utilisation, they would continue to require support leading to higher investments from the group. Further, weaker operating performance due to lower washing volumes will constrain the financial risk profile. Consequently, the debt to EBITDA ratio for fiscal 2020 is expected to deteriorate to 4-4.2 times, against previous expectation of 3.3-3.5 times. Further delay in improvement in debt protection metrics will remain a key rating sensitivity factor.

## Liquidity Adequate

The group's expected cash accrual of around Rs 370 crore should be adequate to service maturing debt of around Rs 350 crore in fiscal 2020. ACBIL's bank limit of Rs 350 crore remained 78% utilised on an average during the 12 months through September 2019. Further, unencumbered cash of Rs 80-100 crore supports overall liquidity.

<b>Rating</b>	<b>sensitivity</b>	<b>factors</b>
<b>Upside</b>		<b>scenario:</b>

\* Reduction in debt, and healthy EBITDA accretion leading to sustained improvement the debt to EBITDA ratio to under 3.5 times

\* Significant investments in group's power projects are returned to ACBIL leading to its reduction in debt

#### Downside

#### scenario:

\* Delay in improvement in debt to EBITDA ratio (expected at around 4-4.2 times by March 31, 2020)

\* Further investments in group companies, any large capital expenditure, or low cash accrual, weakening the financial risk profile

#### About the Company

The promoters of the Aryan group set up ACBIL in 1997 to cash in on growth opportunities in coal beneficiation. SCPL, AEPL, and KCWPL are in the same business, while ACCTPL manufactures washery equipment. ACBIL, its subsidiaries, and its associates have a combined coal beneficiation capacity of 76.71 mtpa.

The group has also ventured into power generation. ACBIL operates coal reject-based power plants of 330 MW in Chhattisgarh and a 15-MW wind farm in Sangli, Maharashtra. SCPL operates a 100-MW coal reject-based power plant at Ratija, Chhattisgarh. The acquisition of SVPPL enhanced operational coal reject-based power plant capacity to 493 MW. ACBIL has also ventured into thermal-power generation through its wholly owned subsidiary, ACB (India) Power Ltd. It has two thermal power projects. The Maruti project, with capacity of 300 MW, recommenced operations in August 2016. The TRN project has capacity of 2 x 300 MW, of which Unit 1 (300 MW) was commissioned in August 2016 and Unit 2 (300 MW) in May 2017. The promoters operate several other companies, including Sindhu Trade Links Ltd, Shyam Indus Power Solutions Pvt Ltd ('CRISIL BBB/Stable/CRISIL A3+'), Sainik Mining and Allied Services Ltd ('CRISIL BB+/Stable/CRISIL A34'), and Spectrum Power Generation Ltd ('CRISIL BBB-/Stable/CRISIL A3').

#### Key Financial Indicators

Aryan Group - As on/for the period ended March 31		2019	2018
Revenue	Rs crore	2721	2202
Profit after tax (PAT)	Rs crore	188	67
PAT margin	%	4.7%	3.0%
Adjusted debt/Adjusted networkth	Times	1.01	1.10
Interest coverage	Times	2.3	1.9

Any other information: Not applicable

#### Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
INE749H07057	Non-Convertible Debentures	28-Mar-2014	12.25	28-Mar-2019	10.0	CRISIL Negative BBB/Watch
INE749H07065	Non-Convertible Debentures	05-Jun-2014	12.25	05-Jun-2019	25.0	CRISIL Negative BBB/Watch
INE749H07073	Non-Convertible Debentures	25-Jun-2014	12.25	25-Jun-2019	10.0	CRISIL Negative BBB/Watch
INE749H07081	Non-Convertible Debentures	18-Mar-2015	11.00	18-Mar-2020	60.0	CRISIL Negative BBB/Watch

#### Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Spectrum Coal and Power Ltd	Full	Strong financial and business linkages
Kartikay Coal Washeries Private Ltd	Full	Strong financial and business linkages

Aryan Clean Coal Technologies Pvt Ltd	Full	Strong financial and business linkages
Aryan Energy Pvt Ltd	Full	Strong financial and business linkages
Global Coal and Mining Pvt Ltd	Full	Strong financial and business linkages
SV Power Pvt Ltd	Full	Strong financial and business linkages
TRN Energy Pvt Ltd	Moderately consolidated	To the extent of equity contribution and cost overrun funding by the Aryan group in the entities
Maruti Clean Coal and Power Ltd	Moderately consolidated	To the extent of equity contribution and cost overrun funding by the Aryan group in the entities

#### Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Out standing Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST		--		--		--		--	03-02-16	Withdrawal	CRISIL A1
										11-01-16	CRISIL A1	
Non Convertible Debentures	LT	105.00	CRISIL BBB/(Watch) Negative	28-02-19	CRISIL A-/Stable	02-02-18	CRISIL A/Stable	29-06-17	CRISIL A+/Negative	15-09-16	CRISIL A+/Negative	CRISIL A+/Stable
								31-05-17	CRISIL A+/Negative	03-02-16	CRISIL A+/Negative	
										11-01-16	CRISIL A+/Negative	
Fund-based Bank Facilities	LT/ST		--		--		--	29-06-17	Withdrawal/Withdrawal	15-09-16	CRISIL A+/Negative/CRISIL A1	CRISIL A+/Stable/CRISIL A1
								31-05-17	CRISIL A+/Negative/CRISIL A1	03-02-16	CRISIL A+/Negative/CRISIL A1	
										11-01-16	CRISIL A+/Negative/CRISIL A1	
Non Fund-based Bank Facilities	LT/ST		--		--		--	29-06-17	Withdrawal/Withdrawal	15-09-16	CRISIL A+/Negative/CRISIL A1	CRISIL A+/Stable/CRISIL A1
								31-05-17	CRISIL A+/Negative/CRISIL A1	03-02-16	CRISIL A+/Negative/CRISIL A1	
										11-01-16	CRISIL A+/Negative/CRISIL A1	

All amounts are in Rs.Cr.

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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