

Press Release

Refex Industries Limited

January 19, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	25.00	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.40.00 Cr bank facilities of Refex Industries Limited (RIL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account RIL's moderate business risk profile marked by experienced promoters, its established track record across Chhattisgarh, Maharashtra and Tamil Nadu. The rating also factors in its healthy financial risk profile marked by a healthy networth and almost 'nil' gearing along with moderate debt protection metrics. These strengths are partially constrained by its high counterparty risk, presence of high supplier and geographical concentration risk in revenue profile and competitive environment in industry.

About the Company

Refex Industries Limited (RIL) was incorporated in 2002 in Chennai, Tamil Nadu. RIL is a specialist manufacturer and re-filler of Refrigerant gases in India, particularly, environmentally acceptable gases that are replacements for Chloro-fluoro-carbons (CFC's). These are used primarily as refrigerants, foam blowing agents and aerosol propellants. RIL has also forayed into the logistic services to power plants such as Handling and Disposal of Fly Ash, Coal yard management and crushing of uncrushed coal and Coal trading to power plants. Besides, RIL also operates a 5.18 Mega Watt (MW) Solar Power Plant at Vituza village, Barmer, Rajasthan. RIL is a publicly listed company and is promoted by Mr. Anil Jain and Sherisha Technology Private Limited.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of the RIL and its wholly owned subsidiary "Vituza Solar Energy Limited" to arrive at this rating.
Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Promoters' extensive experience in industry; Established regional player in Chhattisgarh**

RIL is promoted by Mr. Anil Jain and other family members. Mr. Jain has been associated with RIL since its inception; this has helped RIL to establish strong market presence in the state of Chhattisgarh, Maharashtra and Tamil Nadu. Mr. Jain has over 23 years of experience in heading various business operations and is actively involved with various trade bodies such as The Associated Chambers of Commerce and Industry in India (ASSOCHAM) and the National Solar Energy Federation of India (NSEFI). Mr. Jain looks after the day-to-day operations of RIL and is assisted by team of experienced professionals down the line. The revenue of RIL has grown at a compound annual growth rate (CAGR) of ~17 per cent through FY2019-FY2021. The operating income has increased to Rs.632.66 Cr in FY2021 from Rs.461.05 Cr in FY2019, further, RIL has achieved revenue of Rs.177.32 Cr for 6MFY2022. RIL operates at moderate profitability margins marked by operating margin (EBITDA) of 10.71 percent in FY2021. RIL's operations are divided into 5 business segments i.e. Coal business, Ash Handling, Refrigerant gases, Sale of services and Solar Power. The revenue mix as of FY2021 of RIL consists of revenue from Coal Handling & trading of Rs.449.65 Cr (71 percent Sales of Service of Rs.87.40 Cr (14 percent), Ash Handling of Rs.66.09 Cr (10 percent), Refrigerant Gas of Rs.17.20 Cr (3 percent) and Solar Power of Rs.12.32 Cr (2 percent). Acuité believes that RIL will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage and business segments providing moderate revenue visibility in medium term.

- **RIL's ability to sustain the revenue and profitability despite the impact of Covid-19 Pandemic**

The operations of RIL were marginally impacted during the nation-wide lockdown imposed to curb the spread of Covid-19 pandemic and resumed at desirable operational metrics thereafter. RIL is majorly engaged in coal trading and ash handling industry. The operating income in FY2021 has marginally deteriorated by nearly 4.25 percent against FY2020. The company recorded operating income of Rs.632.66 Cr in FY2021 against Rs.660.74 Cr in FY2020. The revenues were low in the Quarter 1 of FY2021 due to lockdown imposed by the government to curb the spread of Covid-19 pandemic. However, RIL was able to record absolute EBITDA of Rs.67.77 Cr in FY2021 against Rs.51.56 Cr in previous year despite the moderation in the operating income during the period. In FY2022, the company has recorded sales of Rs.177.32 Cr in H1 of FY2022 against Rs.335.80 Cr in H1 of FY2021. The operations of RIL were impacted for 6 months continuously from June'21 to Oct'21 on account of decline in coal trading business. The shortage in the coal supply during the period has resulted in less availability of coal for trading purposes. This has resulted in deteriorated Year-on-Year (YoY) performance of the company. However, the company has witnessed a recovery in the recent months. Acuité expects RIL to record moderate operating income in current year FY2022 on account of moderate business risk profile.

- **Presence of High entry barrier in the logistic segment**

RIL has developed long standing relationship with its customers and knows the requirements of the same and has adapted over the years. The company has been coming up with innovative solutions such as Reverse logistics where same rail tracks are used for coal delivery to power plant and then for collection and logistics of fly ash handling and trading. The company has gained operational efficiency as evident from the improving EBITDA margins. The EBITDA margins of the company marginally improved to 10.71 per cent in FY2021 against 7.80 in FY2020. There are very few players in this niche industry with such scale of operations and efficiencies. Further, RIL does around 210 daily trips to KSK Mahanadi Power Company

Limited and caters to multiple tasks pertaining to logistics. The work done requires extensive experience and capabilities which create high entry barrier for other players. The gestation period for any new player to create the eco-system RIL has achieved would be around 36-42 months with uncertainty of similar operational efficiencies. RIL is able to bargain for "Cash and Carry" credit terms with its major customer "KSK Mahanadi Power Company Limited" on account of same. Acuité believes that RIL will continue to derive benefits from its established presence ensuring stable scale of operations in medium term.

- **Healthy capital structure; Moderate debt protection metrics**

RIL's financial risk profile is healthy, marked by a healthy networth and gearing along with moderate debt protection metrics. The EBITDA margins of the company marginally improved to 10.71 per cent in FY2021 against 7.80 in FY2020. The improvement is attributable to decrease in other expenses during the year. RIL has written off bad debt of Rs.26.58 Cr in FY2020 resulting in deterioration in profitability margins. The PAT margins of the company has improved to 6.47 per cent in FY2021 in comparison to 5.01 per cent in FY2020. The PAT margins in FY2021 has improved despite of increase in depreciation and finance cost on account of lease liability during the period. There has been improvement in the profitability levels, however, due to interest in the interest obligations arising out of lease liability has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood moderate at 8.04 times and 6.15 times respectively in FY2021 as against 55.55 and 31.86 times respectively in the previous year.

The net worth of the company stood at Rs.139.51 Cr as on 31 March, 2021 as against Rs.75.80 Cr as on 31 March, 2020. The improvement is on account of healthy accretion of net profit in the reserves and infusion of equity capital through right issue during the period. The gearing level (debt-equity) stands improved at 0.00 times as on 31 March, 2021 as against 0.02 times as on 31 March, 2020, the improvement is on account of decrease in short term debt. TOL/TNW (Total outside liabilities/Total net worth) has marginally deteriorated and stands moderate at 1.43 times as on 31 March, 2021 against 0.80 times in previous year. Moderate TOL/TNW is on account of presence of lease liability of Rs.74.04 Cr and increase in payables to Rs.100.38 Cr during the period.

The total debt of Rs.0.11 Cr as on 31 March, 2021 consist of vehicle loan. The company is conservative towards its leverage policy and has been managing the working capital requirements through internal accruals. NCA/TD (Net cash accruals to total debt) stands healthy at 421.79 times in FY2021 as against 20.08 times in FY2020. Acuité expects the financial risk profile to remain healthy over the medium to long term period on account of healthy capital structure and stable operations of RIL.

Weaknesses

- **Working capital operations marked by moderate GCA days**

RIL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 98-103 days over the last 3 years ending March 31, 2021. The GCA days are majorly marked by moderate debtor days. The GCA days of 98 days as on March 31, 2021 is on account of presence of debtors of Rs.92.96 Cr and Intercompany deposit extended towards group/holding company "Sherisha Technology Private Limited" of amount Rs.46.59 Cr. The debtors have increased to Rs.92.96 Cr in FY2021 against Rs.72.27 Cr in previous year on account of increased coal trading activity. RIL has a negative working capital of 12 days with inventory days standing at 4 days, debtor days at 54 days and creditor days at 70 days as of March 31, 2021. RIL, so far has been managing its working capital requirement through internal accruals and its efficient receivables management practices such as cash on carry approach towards few of the customers. Acuité expects the working capital management to ease up with RIL's management opting for financial leverage for supporting and improving the scale of operations over the medium term.

- **Presence of high counterparty risk in the revenue profile**

RIL is engaged in various segments such as Coal trading, Ash Handling, Refrigerant gases and sale of services leading to diversified customer profile. However, it can be observed that the top 10 customers are contributing nearly 90-95 per cent to the total sales in FY2021. KSK Mahanadi Power Company Limited, one of the major customer of RIL has been contributing more than 45 per cent of the total sales in the same period, thereby depicting high customer concentration risk in revenue profile. It is observed that certain customer of RIL are currently financially stressed, which poses a threat of delayed payments and/or cancellations of work orders. RIL mitigates such cancellations by means of clauses and notice periods in the work orders, yet there is still a heavy dependency on each of respective thermal power plants. In view of spanning the entire value chain of thermal power generation, RIL is planning to venture into acquisitions of such thermal power plants. Refex Group through holding company Sherisha technologies Private Limited (STPL) has recently acquired VS Lignite Power Private Limited, one of RIL's customers. Acuité believes that there exists high counterparty risk in the revenue profile of the company. However, the risk of concentration is mitigated to an extent on account of long standing relationship of the company and promoters with its major customers. RIL's management is aiming for strategic corporate strategy to diversify its customer base both by party wise and geographical wise. The management also follow cash and carry approach with certain customers to mitigate the risk to an extent.

- **High supplier and geographical concentration risk in the revenue profile**

RIL procures both domestic and imported coal from the traders for trading activity as per the demand from its customers. It can be observed that the top 10 suppliers are contributing nearly 70-75 per cent to the total purchases in FY2021. Indermani Minerals India Private Limited, one of the major supplier of RIL has been contributing more than 50 per cent of the total purchases in the same period, thereby depicting high supplier concentration risk in revenue profile. In terms of geography wise revenue, it can be observed that a single state i.e. Chhattisgarh has been contributing more than 75 per cent of the total sales in the FY2021 thereby depicting high geographical concentration risk in revenue profile. The revenue from Chhattisgarh is high on account of presence of its major customer KSK Mahanadi Power Company Limited in the state of Chhattisgarh. Acuité believes that there exists supplier and geographical concentration risk in the revenue profile of the company. However, the risk of concentration is mitigated to an extent on account of long standing relationship of the company and promoters with its major supplier.

- **Presence of intense competition in the sector; impact of change in regulations**

As per the present Import policy, coal can be freely imported under the Open General License by the consumers themselves considering their needs based on their commercial prudence, thus enabling entry of many players into the sector and leading to intense competition as evident from the low profitability margins. Acuité believes that any change in regulations and policies could have an impact on the business risk profile of the RIL.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.
- Sustainable diversification in customer profile and geographical presence

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Material covenants

None

Liquidity Position: Adequate

RIL's liquidity is adequate marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. RIL has generated cash accruals in the range of Rs.32.59-46.23 Cr during last three years ending FY2021 as against its long term debt obligations of Rs.0.21 Cr for the same period. RIL's working capital is moderate as evident from Gross Current Asset (GCA) of 98 days as on March, 2021 as compared to 56 days as on March, 2020. The current ratio stood at 0.87 times as on 31 March 2021 against 1.88 in previous year. The current ratio doesn't take into account the advances extended towards Sherisha Technology Private Limited of Rs.46.59 Cr. The adjusted current ratio (incl. the advance to STPL) stands at 1.59 times. RIL maintained unencumbered cash and bank balances of Rs.16.56 Cr as on March 31 2021 against Rs.15.90 Cr in previous year. Further, RIL has deposit with bank of Rs.0.68 Cr. RIL has a liquid investment of Rs.74.00 Cr in an Alternate Investment Fund (RKG Fund I) and provides support to the liquidity position. The liquidity profile of RIL is expected to further improve on account of upcoming maturing of intercorporate deposit of Rs.46.59 Cr extended towards Sherisha Technology Private Limited (STPL). Acuité believes that the liquidity of RIL to remain adequate on account of stable scale of operations and healthy capital structure. RIL is expected to generate adequate NCAs in the range of Rs.41.37-45.25 Cr. against modest CPLTD of Rs.0.02-Rs.0.03 Cr over the medium term.

Outlook: Stable

Acuité believes that RIL rating will maintain a 'Stable' outlook over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if RIL registers sustainable improvement in work execution, realization in trading leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case RIL registers lower-than expected revenues and profitability or any significant delays from the counterparties resulting in stretch in its working capital management or larger than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	632.66	660.74
PAT	Rs. Cr.	40.95	33.13
PAT Margin	(%)	6.47	5.01
Total Debt/Tangible Net Worth	Times	0.00	0.02
PBDIT/Interest	Times	8.04	55.55

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2 Assigned

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About Acuité Ratings & Research

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