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ICRA revises long term rating of Essel Mining & Industries Limited; reaffirms short term rating

ICRA has revised the rating of the Rs 380 crore¹ bank limits for long term fund based and non fund based facilities of Essel Mining & Industries Ltd (EMIL) from LA+ (pronounced L A plus) to LAA- (pronounced L double A minus)[†]. The outlook on the rating is stable. ICRA has retained the A1+ rating of the Rs 220 crore bank limits for short term fund based and non fund based facilities and of the Rs 600 crore short-term debt / commercial paper programme of EMIL.

The rating revision factors in the improvement in capital structure of the company as well as significant increase in prices of iron ore in the current year, from the lows witnessed since the second half of FY09 following the global crisis which, along with the a largely fixed cost intensive nature of mining operations, is likely to result in a significant improvement in profitability, cash accruals and debt coverage indicators of the company going forward. The ratings continue to factor in EMIL's large scale of iron ore mining operations, superior quality of its deposits with high Fe content, as well as its high financial flexibility derived from its status as an company belonging to the A. V. Birla Group. The ratings also factor in EMIL's exposure to regulatory risks, exposure to the cyclicity inherent in the iron ore business, geographical concentration risks to an extent with exports to China accounting for around 40% of EMIL's sales and substantial debt funded investments in group companies, which adversely impact its financial risk profile. While EMIL's volumes were adversely affected during the first four months of the current financial year on account of operational challenges, ICRA expects the company's management to remain sensitive to such challenges and take appropriate initiatives to mitigate such risks going forward. The ratings also factor in EMIL's plans to enter mining operations for other minerals going forward. While the plans are yet to be finalised, ICRA does not expect EMIL's business risk profile to be significantly impacted, since the company is likely to be able to finance such growth initiatives from its own internal accruals, with limited reliance on external debt. While revising the rating, ICRA has drawn comfort from the existing financial covenants that EMIL has committed to its primary lender, which limits the total amount of debt that the company can contract over the medium term, and the liquid investment in the books of the company as on 31st March 2010. In addition, while iron ore prices are expected to remain volatile going forward, ICRA expects EMIL's cash accruals to remain comfortable relative to its debt service obligations, notwithstanding the lower volumes during the current year.

Company Profile

EMIL, a closely held entity of the A. V. Birla Group, has been mining iron ore in the state of Orissa for more than five decades, supplying to both the domestic and export markets. The company is also one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit located in the state of Gujarat and catering to the domestic special and alloy steel industries. Additionally, the company operates a 75 MW wind-power unit, which sells power in the state of Maharashtra.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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