May 30, 2022

Essel Mining & Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	175.00	175.00	[ICRA]A1+ reaffirmed
Non Fund-Based Facilities	45.00	45.00	[ICRA]A1+ reaffirmed
Commercial Paper	1500.00	1500.00	[ICRA]A1+ reaffirmed
Total Limits Rated	**1720.00**	**1720.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Essel Mining & Industries Limited (EMIL), which includes its subsidiaries, step-down subsidiaries, and associate companies while assigning the credit ratings, given the common management and significant operational and financial linkages among them.

The rating reaffirmation factors in EMIL's status as a strategically important entity to the Aditya Birla Group, and the demonstrated funding support that the company has received from the Group over the years. EMIL, through its wholly-owned subsidiary, IGH Holdings Pvt. Ltd. (IGH), has a sizeable shareholding in multiple listed Aditya Birla Group entities. IGH's market value of such listed investments stood at over Rs.32,000 crore as on March 31, 2022, which gives EMIL high financial flexibility. Moreover, ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance derived from its sizeable equity holdings in key businesses of the Group. The rating also reflects EMIL's established presence in the coal mining business, with the company operating as a mine development and operator (MDO) for two large coal mines of Coal India Limited, having a cumulative capacity of 45 million tonnes per annum (mtpa). Additionally, EMIL has a renewable energy portfolio of 150 MW, which generates stable earnings, backed by long-term power purchase agreements (PPAs) with discoms. Notwithstanding the expiry of the Koira mining lease on August 26, 2021, EMIL continued generating cash flows from the iron ore business for the rest of FY2022 by dispatching the mineral excavated during the lease tenure, which led to another year of healthy earnings albeit some decline on a sequential basis due to lower dispatches. The healthy earnings aided EMIL to channelise its free cash flows to strengthen its balance sheet liquidity. Consequently, EMIL's liquidity profile remained comfortable as on March 31, 2022.

The rating, however, considers a significant drop in the consolidated earnings expected from the current fiscal (FY2023), following the expiry of the Koira mining lease and the weak operational performance of the pellet unit. EMIL has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio. The cumulative value of investments in these greenfield mining projects[1] stands at around Rs.10,000-12,000 crore[2], of which around Rs.3,500 crore is towards the development of the two greenfield commercial coal mining projects (Radhikapur East and Bandha), Rs.2,560 crore is towards development of a greenfield diamond mining project (Bunder) and the balance is towards the recently won three coal MDOs (Amelia, Subhadra and Madannagar). Such a large investment pipeline in greenfield mines exposes the company to execution risks. ICRA notes that though execution risks get partly mitigated in the greenfield coal mining projects because of the demonstrated experience of the Aditya Birla Group in this field, the project risks remain elevated for the Bunder diamond mining project, where the company has no experience so far. With EMIL's earnings unlikely to improve meaningfully before FY2026/FY2027, the company's debt protection indicators are expected to weaken from the prevailing levels over the medium term. Moreover, the steep increase in capex commitments following the addition of the three recently won coal MDO projects and the proposed funding through a debt:equity ratio of

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[1] ICRA has not factored in the Madanpur (South) coal MDO project as it on hold at the moment due to regulatory challenges

[2] Preliminary estimates subject to revision; MDO project costs indicate life cycle costs

3:1 would lead to a significant increase in EMIL's peak debt levels, much higher than ICRA's earlier estimates. ICRA, therefore, believes that unless there is adequate funding support from the Group during this period of rebuilding of its mining asset portfolio, such a sizeable debt-funded capex pipeline and exposure to execution risks, would also exert pressure on the leverage metrics and the liquidity position. Besides, over the medium term, EMIL's rising debt levels could also weaken the net external debt/market value of the listed investment cover, which in turn would adversely impact its financial flexibility. Consequently, ICRA believes that EMIL's ability to maintain a healthy liquidity profile during this capex execution phase and complete these ongoing projects within the budgeted time and costs, would remain critical from the credit perspective.

Key rating drivers and their description

Credit strengths

Demonstrated track record of support from the Aditya Birla Group – Over the years, EMIL has made substantial investments in the Aditya Birla Group entities through its wholly-owned subsidiary, IGH. Given the sizeable quantum of these holdings, EMIL remains a strategically important company to the Aditya Birla Group, which supports the rating.

ICRA notes that between FY2019 and FY2022, EMIL has received a cumulative Rs. 6,497-crore funding support from the Aditya Birla Group through a combination of rights issue of Rs. 4,841 crore and compulsorily convertible debenture (CCD) of Rs. 1,656 crore. These inflows have been mobilised in IGH to fund its various investment needs as well as for deleveraging. In September 2020, EMIL's Board had passed a resolution to bring in fresh CCDs worth Rs. 3,060 crore, of which the first tranche of Rs. 828 crore had been infused in October 2020, and the second tranche of Rs. 828 crore has been infused in end-April 2021, which were utilised for meeting the investment requirements of IGH. ICRA understands that the balance CCDs are callable as per requirement.

Established presence in the coal mining business – EMIL is one of the largest private coal miners in India, operating two coal assets as MDO, the 28-mtpa Bhubaneshwari coal mine in Odisha for the Mahanadi Coalfields Limited, and the 17-mtpa Rajmahal coal mine in Jharkhand for the Eastern Coalfields Limited. Notwithstanding the moderation in performance by the MDO business cumulatively in FY2022 due to a steep increase in fuel rates, which could not be passed on, along with lower coal extraction at the Rajmahal coal mine due to land unavailability, the two coal MDOs have generated healthy earnings over the years and the debt levels remain low, with a sizeable balance sheet liquidity of around Rs. 218 crore[3] as on March 31, 2022. Apart from EMIL, the Aditya Birla Group also has substantive coal mining expertise with Hindalco and Ultratech Cement, both operating captive coal mines.

Stable earnings from the renewable energy generation portfolio – EMIL has a renewable energy portfolio of 150 MW having an average vintage of around eight years. These assets are generating a stable EBITDA of Rs. 109-115 crore annually. ICRA notes that EMIL's power generation assets have largely paid off its long-term debt. As on date, EMIL's renewable power portfolio has a debt outstanding of only around Rs.60 crore.

High financial flexibility and comfortable liquidity profile derived from EMIL's large investment portfolio, sizeable cash and liquid investment balance, and its strong relationship with domestic banks – As on March 31, 2022, the market value of IGH's equity holdings in key listed entities of the Aditya Birla Group like Hindalco Industries Limited, Grasim Industries Limited, Aditya Birla Fashion and Retail Limited, Aditya Birla Capital Limited, Century Textiles and Industries Limited and Vodafone Idea Limited stood at over Rs.32,000 crore. This imparts high financial flexibility to EMIL, as indicated by its demonstrated ability to borrow at competitive interest rates. Apart from the company's high financial flexibility, EMIL's liquidity profile is also supported by its sizeable cash and liquid investment balance of around Rs.2,300 crore outstanding on a consolidated basis as on March 31, 2022. ICRA also notes that in FY2021, EMIL has been able to refinance its short-term borrowings with long-term debt at favourable repayment terms, which strengthen the company's liquidity and ALM[4] profile.

[3] Includes only cash & liquid investment balance and excludes ICD of Rs.275 crore given to group entities

[4] Asset liability mismatch

Credit challenges

Significant drop in consolidated earnings expected from the current fiscal following expiry of Koira mining lease – EMIL's iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021. The company continued generating cash flows from the iron ore business for the rest of FY2022 by dispatching the mineral excavated during the lease tenure, which led to another year of healthy earnings albeit some decline on a sequential basis due to lower dispatches. From FY2023, the company's consolidated OPBITDA is expected to decline by 75-80% over FY2022. As the company embarks on rebuilding its mining portfolio, its operating profit is unlikely to witness any meaningful improvement between FY2023 and FY2025 and would be largely driven by modest earnings from the renewable energy, coal mining MDO, and pellet manufacturing businesses.

Weak operational performance by the pellet unit – EMIL had acquired the 1-mtpa pellet plant through the IBC[5] route towards the end of FY2019. Though the pellet unit has started functioning after repeated deferrals, receipt of forest clearance for laying a transmission line, connecting power supply to the pellet plant was delayed considerably and was received only in November 2021. As a result, the company had to operate its pellet plant using high-cost diesel powered DG set, leading to high fuel costs. Timely scale-up of capacity utilisation without major issues and stabilisation of the power line would remain crucial, going forward.

Exposure to significant project execution risks associated with the company's foray in long-gestation large greenfield mining projects; total capex commitment stands significantly higher than earlier estimates – ICRA notes that EMIL stayed away from making aggressive bids in the Odisha iron ore auctions, and the company was unable to bag any iron ore mine, including its most profitable 6.28-mtpa Jilling iron ore block. However, in the last two and a half years, EMIL has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio. The cumulative value of investments in these greenfield mining projects stands at around Rs.10,000-12,000 crore, of which around Rs.3,500 crore is towards the development of the two greenfield commercial coal mining projects, Rs.2,560 crore is towards development of a greenfield diamond mining project and the balance is towards the recently won three coal MDOs. The total capex commitment of around Rs.10,000-12,000 crore stands significantly higher than the earlier levels of Rs.6,533 crore factored in by ICRA at the time of the last rating exercise. Such a sizeable capex plan in greenfield mines, having long gestation periods, exposes the company to execution risks. However, the Aditya Birla Group's demonstrated track record of developing and operating coal mines partly mitigates execution risks in the upcoming greenfield coal mining projects. Besides, ICRA has also noted that land acquisition and receipt of statutory clearances are yet to be completed for all the commercial coal blocks and the diamond mines.

Apart from execution risks, the company remains exposed to market risks as well in the commercial coal mining and diamond mining, given that the private sector has limited presence in the space. However, ICRA notes that market risks for the upcoming commercial coal projects get partly mitigated by the Aditya Birla Group's sizeable demand for coal in the cement and non-ferrous metal businesses.

Limited experience of the private sector in the diamond mining sector leading to uncertainty over the company's ability to generate adequate returns on invested capital in Bunder – At present, NMDC Limited, along with the Department of Geology & Mining, the Government of Madhya Pradesh, are the only two large entities mining diamond in India. EMIL's upcoming Bunder diamond mine will be the first test case for the entry of a domestic private sector entity in this high-risk domain, leading to uncertainty over the company's ability to generate adequate returns on the invested capital. Further, Bunder's less favourable geo-mining conditions (with respect to grade and stripping ratio), its limited mine life of 12-14 years, the challenges in seeking environmental/ forest clearances, and uncertainty over the marketability of the mined diamonds make Bunder a more risky investment than the company's foray into the commercial coal mining. ICRA, however, notes that the average

[5] Insolvency and Bankruptcy Code

diamond realisations from NMDC's Panna mine, which is located in proximity to Bunder, remain higher than leading global miners like De Beers and Alrosa, which suggests superior quality of Bunder's natural diamonds.

Leverage expected to increase from FY2023 as the company deploys sizeable capital in rebuilding its mining portfolio; peak debt levels could increase significantly unless adequate funding support is received from the Aditya Birla Group – EMIL has significantly deleveraged between FY2019 and FY2022, with the gross debt levels (excluding CCD) declining from around Rs.6,154 crore as on March 31, 2019 to around Rs.3,817 crore as on March 31, 2022. However, EMIL's debt levels are expected to increase over the medium term as it embarks on a multi-year capex phase, requiring a capital deployment of around Rs.10,000-12,000 crore. With EMIL's earnings unlikely to improve meaningfully before FY2026/FY2027, the company's debt protection indicators are expected to weaken from the prevailing levels over the medium term. Moreover, a steep increase in capex commitments following the addition of the three recently won coal MDO projects and the proposed funding through a debt:equity ratio 3:1 would lead to a significant increase in EMIL's peak debt levels, much higher than ICRA's earlier estimates. ICRA, therefore, believes that unless there is adequate funding support from the Group during this period of rebuilding of its mining asset portfolio, such a sizeable debt-funded capex pipeline, apart from exposing the company to execution risks, would also exert pressure on the leverage metrics and the liquidity position. Moreover, over the medium term, EMIL's rising debt levels could also weaken the net external debt/market value of listed investment cover, which in turn would adversely impact its financial flexibility.

Liquidity position: Adequate

EMIL has been consistently generating positive free cash flows over the years, supported by healthy earnings and low investment needs of the iron ore mining division. In the recent years, EMIL has channelised a large portion of the free cash flows towards deleveraging as well as building a sizeable liquidity pool to fund its large upcoming capex plans. As on March 31, 2022, EMIL had a cash and liquid investment balance of around Rs.2,300 crore on a consolidated basis. Moreover, as on March 31, 2022, EMIL had an equity portfolio of over Rs. 32,000 crore in various listed entities of the Aditya Birla Group, which provides a high degree of financial flexibility. However, with the capital deployment in the greenfield mining projects expected to gather pace, and EMIL's earnings poised to further decline sharply from FY2023, the company's free cash flows are expected to slip in the negative territory for a few years till the greenfield assets ramp up and start generating adequate returns. Consequently, given these sizeable capex plans, EMIL's liquidity has been assessed as **Adequate**.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on EMIL's rating could arise for reasons including: a) Net external debt[6] (excluding CCD)/ market value of listed equity investments exceeds 25% on a sustained basis, b) available unencumbered cash and liquid investment balance and undrawn lines of credit (working capital + tied-up project debt) remain inadequate to meet the scheduled debt service obligations (interest + principal) and greenfield capex commitments for the coming 12 months, on a sustained basis, and c) significant execution challenges in the ongoing greenfield mining projects, leading to large time and cost-escalation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology for Solar Power Producers Rating Methodology for Wind Power Producers Rating Methodology for Holding Companies

[6] Net debt = Gross debt less unencumbered cash & liquid investments

Analytical Approach	Comments
Parent/Group Support	Parent: Aditya Birla Group ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance that EMIL holds through the sizeable equity holdings of IGH in key businesses of the Group.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EMIL. As on March 31, 2021, the company had seven subsidiaries, one stepdown subsidiary and one associate, which are all enlisted in Annexure-2.

About the company

EMIL, a closely held entity of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. EMIL's iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021.

EMIL is one of the country's largest coal mining MDOs. In the last two and a half years, the company has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio.

EMIL is one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit in Gujarat and catering to the domestic special and alloy steel industries. The company also has a renewable energy generation portfolio of 150 MW, with assets spread across four states. EMIL operates a 75-MW wind-power generation unit in Maharashtra. Additionally, the company has commissioned a solar power generation project of 25 MW under the Rajasthan State Solar Policy, and another 35 MW solar power generation project in Telangana. EMIL's 74% step-down subsidiary, Palace Solar Energy Private Limited, has a 15-MW operating solar power plant in Gujarat.

Apart from revenue generating tangible assets, EMIL, through its wholly-owned subsidiary, IGH Holdings Pvt. Ltd., holds a sizeable investment portfolio in various Aditya Birla Group entities. The cumulative value of IGH's listed holdings as on March 31, 2022 stood at over Rs. 32,000 crore.

Key financial indicators (audited)

EMIL	Consolidated		Standalone		
	FY2020 (Aud.)	FY2021 (Aud.)	FY2020 (Aud.)	FY2021 (Aud.)	FY2022 (Prov.)
Operating Income (Rs. crore)	5,202.7	5,134.7	4227.6	4132.3	3806.6
PAT (Rs. crore)	685.6	1,601.4	862.7	1412.1	1291.1
OPBDIT/OI (%)	39.4%	48.1%	40.7%	53.5%	42.7%
PAT/OI (%)	13.2%	31.2%	20.4%	34.2%	33.9%
Total Outside Liabilities/ Tangible Net Worth+ MI (times)	0.6	0.2	0.2	0.1	0.1
Total Debt/OPBDIT (times)	1.9	1.5	1.3	0.6	1.2
Interest Coverage (times)	4.0	8.0	7.6	13.9	10.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company results, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 30, 2022	**May 10, 2021**	**-**	**Feb 24, 2020 Jul 29, 2019**
1	Fund Based Limits	Short term	175.00	0.00	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
2	Non Fund-Based Facilities	Short term	45.00	0.00	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
3	Commercial Paper	Short term	1500.00	0.00	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Very Simple
Non Fund-Based Facilities	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Unplaced	Commercial Paper	-	-	-	1500.00	[ICRA]A1+
NA	Fund Based Limits	-	-	-	175.00	[ICRA]A1+
NA	Non Fund-Based Facilities	-	-	-	45.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	EMIL Ownership	Consolidation Approach
IGH Holdings Pvt. Ltd.	100%	Full Consolidation
Electrotherm Renewables Pvt. Ltd.	100%	Full Consolidation
Palace Solar Energy Pvt. Ltd. *(Step down subsidiary of Electrotherm Renewables Pvt. Ltd.)*	74%	Full Consolidation
Rajmahal Coal Mining Ltd.	85%	Full Consolidation
Bhubaneswari Coal Mining Ltd.	74%	Full Consolidation
Aditya Birla Aerospace and Defence Pvt. Ltd.	100%	Full Consolidation
Pro Minerals Pvt. Ltd.	100%	Full Consolidation
EMIL Mines and Mineral Resources Ltd.	100%	Full Consolidation
Living Media India Ltd.	41.50%	Equity Method

Source: *EMIL annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent (EMIL), its subsidiaries and associates while assigning the ratings.*

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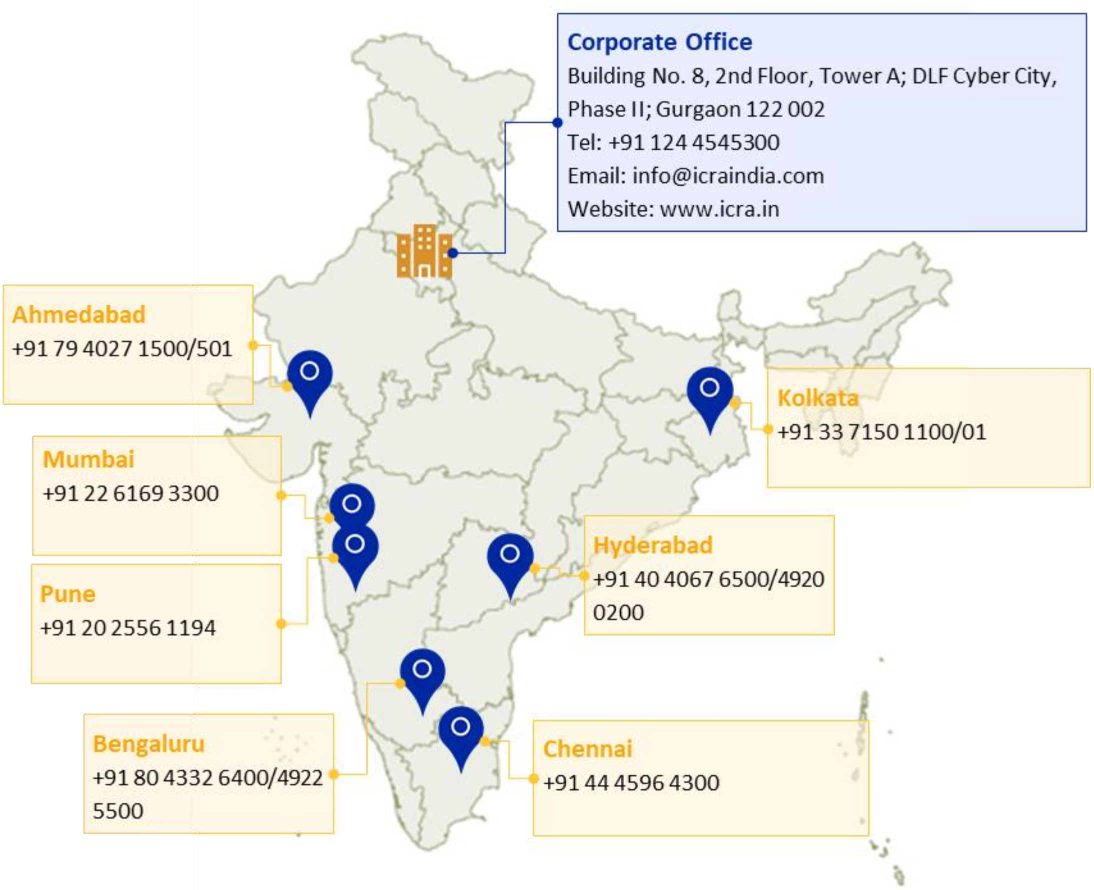

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