June 27, 2022

IRC Natural Resources Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	1.00	1.00	[ICRA]BBB- (Stable); Reaffirmed
Long-term / Short-term – Non-Fund Based – Bank Guarantee	25.00	29.00	[ICRA]BBB- (Stable) / [ICRA]A3; Reaffirmed
Long-term – Unallocated Limit	10.00	6.00	[ICRA]BBB- (Stable); Reaffirmed
Total	**36.00**	**36.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the significant experience of the promoters in the contract mining and logistics businesses and the company's track record of rendering service to reputed clients. The ratings also consider the new long-term contract won by IRC Natural Resources Private Limited (INRPL) from Inland Waterways Authority of India (IWAI) for operating the multimodal terminal at Haldia, West Bengal, which would support INRPL's revenues and cash accruals, going forward. The presence of price variation clause in INRPL's existing cargo handling operation at the Haldia Dock Complex, which is a key business segment at present, protects the segment's profitability from adverse movement in input costs, to a large extent. The ratings also consider the conservative capital structure and the comfortable debt coverage metrics of INRPL.

A significant delay in commissioning of the company's black stone mines has restricted growth in its scale of operations. The company started operation of a black stone mine (Hatgacha) in Birbhum from end-FY2022, however, the second black stone mine (Jethia) in Birbhum is yet to commence operations. The third black stone mine (Palsara) in Purulia is unlikely to be commissioned due to land acquisition related issues. The ratings are also constrained by the vulnerability of the cargo handling segment to the economic cycles causing variation in export and import volumes, and the company's modest ROCE, given its sizeable investment in properties and financial exposure to Group companies without commensurate returns.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that an expected improvement in the scale of core operations (cargo handling and mining) is likely to positively impact INRPL's profits and cash accruals, going forward. The company's overall credit profile is likely to remain comfortable with limited debt and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Promoter's experience in contract mining and logistics business – INRPL, a part of the Kolkata-based IRC Group, has been promoted by Mr. Anil Gupta, who has a significant experience in the field of contract mining for overburden removal, blasting, site preparation etc as well as logistics business. The company has a track record of satisfactorily serving reputed clients.

New contract for operating inland waterways terminal at Haldia likely to strengthen business profile – The company has won a long-term contract from IWAI for operating the multimodal terminal at Haldia, West Bengal. The contract is for ten years from the commencement of operation and is renewable for five more years thereafter. INRPL has to pay a fixed royalty of around Rs. 105 per tonne to IWAI for riverine cargo and the tariff ceiling stipulated by IWAI would remain linked to the wholesale price index. The contract is likely to commence in the near term and is likely to positively impact INRPL's revenues and cash flows, going forward.

Presence of price variation clause in the cargo handling contract protects profitability in the segment – The company commenced cargo handling operation at berth number 13 of Haldia Dock Complex in November 2016 and the contract is valid till April 2026. The cargo handling (loading/unloading) charges factor in the price variation of the input costs (wages and fuel charges). The charges remain linked to the benchmark indices and are revised at regular intervals. The presence of the price variation clause in the cargo handling contract protects the segment's profitability to a large extent.

Conservative capital structure and comfortable debt coverage metrics – Limited debt level vis-a-vis a healthy tangible net worth led to a conservative capital structure of the company, as reflected by a gearing of 0.1-0.2 times since FY2019. The debt coverage metrics remained comfortable in the recent years due to a reduction in debt, despite a decline in the operating profits in the last two fiscals, as reflected by the interest coverage and total debt/OPBDITA of 5.3 times and 1.3 times, respectively in FY2022 (provisional) vis-à-vis 3.6 times and 1.2 times, respectively, in FY2021. The company's DSCR remained low at 0.5 times in FY2021 due to a sizeable scheduled repayment and prepayment of term loans, however, is likely to remain comfortable going forward (estimated at 1.7 times in FY2022) due to reduced debt repayment obligation.

Credit challenges

Delay in commissioning of black stone mines restricted growth in scale of operation – The company has mining contracts for a clay mine (in Birbhum) and three black stone mines (two in Birbhum and one in Purulia) from West Bengal Mineral Development and Trading Corporation Ltd. (WBMDTC). The operation of the clay mine commenced from January 2021, and one of the black stone mines in Birbhum (Hatgacha) has been operational from the end of FY2022. However, there has been a significant delay in commissioning of the black stone mines compared to the previously envisaged timeline due to delay in handover of land by WBMDTC, affecting growth in INRPL's scale of operation. While the second black stone mine in Birbhum (Jethia) is expected to commence operation in the next fiscal, the black stone mine in Purulia (Palsara) is unlikely to be commissioned due to persisting issues related to land acquisition.

Cargo handling business volumes remain exposed to economic cycles and export-import volumes – The company's cargo handling operation remains exposed to vulnerability of the end-user industries to economic cycles. The scale of the cargo handling business also remains vulnerable to factors like foreign exchange rate fluctuation, changes in duty structure, government policies, customers' preference on port selection etc. which impact export and import volumes. In FY2022, the company's cargo handling volume declined by around 23%.

Modest ROCE; sizeable investment in properties and Group companies affected overall returns – The company has a significant financial exposure in the form of investments, loans and advances to the Group companies and sizeable investments in properties without commensurate returns, negatively impacting the overall returns on its capital employed. Consequently, INRPL's ROCE remained low in the recent years (2% in FY2021).

Liquidity position: Adequate

INRPL's liquidity position is adequate. The company's cash flow from operations remained negative in FY2022 (provisional) and is likely to remain moderate in the near-to-medium term. However, it has sizeable free cash and liquid investments of around Rs. 19 crore at present, supporting the liquidity position. It has a moderate repayment obligation of around Rs. 3 crore annually till FY2024. The utilisation of the fund-based working capital limit (Rs. 1 crore) of the company remained very low/negative in the recent months. The capex required (around Rs. 9-10 crore) for installation of equipment for the mines and IWAI contract is likely to be funded internally, given the adequate free cash available with the company.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in the company's scale of operations along with an improvement in profit margins on a sustained basis.

Negative factors – Pressure on the ratings will emanate from any significant deterioration in profits and cash accruals of the company and/or weakening of its liquidity position due to any significant debt-funded capex or a sizeable incremental financial exposure to Group entities. Specific credit metrics that may lead to a downgrade of the ratings include DSCR below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Mining
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of INRPL

About the company

Incorporated in August 2002, INRPL is involved in cargo handling (loading/unloading) at Haldia Dock Complex and mining of clay (China clay and fire clay) and black stone in Birbhum, West Bengal. The company in also involved in share trading, which contributed to its overall operating income significantly in the recent years (60% in FY2022), however, the same had a nominal impact on its profits. INRPL has secured a long-term contract from IWAI for operating the multimodal terminal at Haldia, which is likely to commence in the near term. As per the terms of the contract with IWAI, INRPL has formed a special-purpose vehicle named IRC Multimodal Haldia Private Limited (IMHPL) through which the contract will be executed. INRPL holds 60% shares in IMHPL, and the balance 40% is held by the promoters.

Key financial indicators (audited)

INRPL	FY2020 (audited)	FY2021 (audited)	FY2022 (provisional)
Operating Income (Rs. crore)	77.0	62.6	67.0
PAT (Rs. crore)	3.6	-0.4	1.05*
OPBDIT/OI (%)	17.2%	12.8%	7.7%
PAT/OI (%)	4.7%	-0.7%	1.6%^
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	-
Total Debt/OPBDIT (times)	1.6	1.2	1.3
Interest Coverage (times)	4.4	3.6	5.3

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Profit before tax (PBT); ^PBT/OI*

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CRISIL	CRISIL B/Stable (ISSUER NOT COOPERATING*)/ CRISIL A4 (ISSUER NOT COOPERATING*)	June 08, 2022

**Issuer did not cooperate; based on best-available information*

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
					Jun 27, 2022	**-**	**Mar 10, 2021**	**-**
1	Cash Credit	Long Term	1.00	-	**[ICRA]BBB- (Stable)**	-	[ICRA]BBB- (Stable)	-
2	Bank Guarantee	Long Term/ Short Term	29.00	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-
3	Unallocated Limit	Long Term	6.00	-	**[ICRA]BBB- (Stable)**	-	[ICRA]BBB- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Long Term/ Short Term – Non-Fund Based (Bank Guarantee)	Very Simple
Long term – Unallocated limit	Not applicable

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, is 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
NA	Cash Credit	NA	NA	NA	1.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	29.00	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Unallocated Limit	NA	NA	NA	6.00	[ICRA]BBB- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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