

November 24, 2022

Rai Bahadur Seth Shreeram Narsingdas 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 – Term Loan	1.39	2.75	[ICRA]BBB+(Stable); reaffirmed
Short Term- Demand Loan	-	15.40	[ICRA]A2; reaffirmed
Long Term Fund Based – Cash Credit	60.00	60.00	[ICRA]BBB+(Stable); reaffirmed
Short Term – Non-fund Based Limits	10.00	10.00	[ICRA]A2; reaffirmed
Long Term / Short Term - Unallocated Limits	34.61	17.85	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	106.00	106.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN) factors in the company's improved financial performance in FY2022, in line with expectations, backed by healthy realisation from the sale of iron ore amid rising global steel prices, and the promoter's demonstrated experience of over three decades in the steel industry. However, RBSSN's earnings are expected to witness a significant moderation in the current fiscal as iron ore prices corrected by 35-40% after the imposition of export duties in May 2022. The ratings reaffirmation also factors in the diversification of the revenue mix with commencement of the sand manufacturing business and planned investment in the brick manufacturing unit primarily to utilise the tailings generated during the beneficiation process. This will help the company reduce the storage and handling costs of tailings as these will be utilised to produce one lakh bricks per day. The revenue from the sand manufacturing unit increased by 33% in FY2022 vis-à-vis FY2021, leading to a gradual reduction of the division's losses. Further, the ratings factor in the healthy liquidity supported by the rise in earnings in FY2022 along with comfortable capital structure and coverage indicators of the company. The ratings also continue to favourably factor in the low operating cost of RBSSN's beneficiation unit due to its proximity to mine and its partially captive power sources in the form of windmills, which also support the profitability of the company. ICRA understands that RBSSN has been awarded a favourable judgement in the matter of execution of wheeling and banking arrangement for the energy generated from RBSSN's 3.20-MW and 1.60-MW wind power projects at Gadag, which is expected to lead to arrear billings of Rs. 12-14 crore, to be billed in FY2023.

The ratings, however, remain constrained by RBSSN's exposure to the cyclical nature in iron ore prices and to the risks arising from operating in a highly regulated iron ore mining industry. The ratings also consider working capital intensive nature of the company's operations due to its large inventory levels. ICRA notes that the company has invested Rs. 48.8 crore as on March 31, 2022 in its subsidiary, RBSSN Overseas PTE (RBOP), for exploring mining opportunities in South East Asia, but the project has been currently put on hold due to regulatory restrictions, which constrain the overall business return indicators. In addition, RBSSN is at the nascent stage of a large capital expansion accumulating to ~Rs. 800 crore (over 1.5 times of the current balance sheet size) towards new iron ore mine acquisition in Karnataka as well as forward integration into beneficiation facility, pellet plant, and steel plant, which would expose the company to execution and funding risks and hence remains a key rating sensitivity. Timely commissioning and stabilisation of operations of these facilities while maintaining healthy capital structure and credit indicators would be monitored from the credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that RBSSN will continue to benefit from the healthy demand of iron ore in the near-to-medium term, which, along with the cost-efficient beneficiation facility is expected to support healthy earnings, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in iron ore mining and beneficiation business – Incorporated in 1951 as a partnership firm, RBSSN is involved in iron ore mining for more than seven decades. The company's mines fall under category-A with medium grade iron ore deposits. It also has a beneficiation plant adjacent to its mines, resulting in a competitive operating cost along with partially captive power sources in the form of windmills with a total capacity of 23.2 MW.

Comfortable capital structure and coverage indicators – RBSSN's capital structure remained comfortable with a gearing of 0.2 times as on March 31, 2022. The coverage indicators remained comfortable with an interest coverage ratio of 19.4 times and total debt-to-operating profit ratio of 0.8 times in FY2022. RBSSN's total debt levels have reduced to Rs. 78.8 crore as on March 31, 2022 from Rs. 90.3 crore as on March 31, 2021 due to repayment of long-term loans in FY2022. The debt service coverage ratio of the company has also improved to 9.7 times in FY2022 from 2.2 times in FY2021, depicting healthy profit accruals and low debt level in FY2022.

Comfortable liquidity position supported by a jump in earnings in FY2022 – The company has positive net cash accruals amounting to Rs. 79.9 crore in FY2022 and health cash flow from operations. The total amount of cash and other investments stood at Rs. 154 crore as on March 31, 2022, with Rs. 131.63 crore in liquid mutual funds, Rs. 10.7 crore in fixed deposit (encumbered against demand loan) and Rs. 0.97 crore in the form of cash and cash equivalents as on March 31, 2022. ICRA, however, understands that the sizeable investments expected in the next three years are likely to reduce the liquidity buffer in the future.

Diversification of revenue mix with commencement of sand manufacturing business and brick manufacturing unit – The company produces manufactured-sand (m-sand) and plastering-sand (p-sand) at a stone quarry and a crushing plant at Anantpur in Andhra Pradesh. The revenue from the sand manufacturing unit increased by 33% in FY2022 vis-à-vis FY2021, leading to a gradual reduction of the division's losses. The company is also planning to set up a brick manufacturing plant with a production capacity of 1 lakh bricks per day and has acquired 9.2 acres of land in Karignur, Karnataka for this plant, which is expected to be commissioned in May 2023. This plant would result in savings of cost incurred in storing and handling tailings produced from the beneficiation process. ICRA also notes that the overall revenue from the wind power generation has improved by 10% in FY2022 vis-a-vis FY2021. The favourable judgment in the matter of execution of wheeling and banking arrangement in dispute for the energy generated from RBSSN's 3.20-MW and 1.60-MW wind power projects (WPPs) at Gadag would further add to the overall revenue in the segment, going forward.

Credit challenges

Exposure to cyclicity of iron ore prices – RBSSN is vulnerable to the fluctuations in domestic iron ore prices, given its linkages with the inherently cyclical steel sector, which is its only end-user industry.

Exposure to regulatory risks – RBSSN operates in a highly regulated iron ore mining industry, which exposes it to regulatory risks. The mining output was restricted to 2.43 lakh tonnes per annum (lakh TPA) in FY2022 as per the Consent of Operation (COF) issued by the Karnataka State Pollution Control Board. The revenue growth of RBSSN is also limited due to capping of the beneficiation output at 5.0 million tonnes per annum (mtpa). Any unfavourable change in the government's mining policy may impact its revenue growth and profitability.

Working capital intensive nature of operations; removal of mandatory e-auction from May'22 to reduce working capital intensity somewhat going forward – The company's operations remain working capital intensive, as reflected by the net working capital-to-operating income (NWC/OI) of 35.2% in FY2022. This is mainly due to high inventory days (120 days in

FY2022), which include a large stock of low grade and sub-grade iron ore. The receivable days continued to be in the range of 35-40 days in the past three years. ICRA understands that the working capital intensity is expected to reduce in the future due to credit period provided by iron ore miners, after dissolution of the Monitoring Committee in Karnataka.

Sizeable investment in the overseas subsidiary without any commensurate increase in earnings impacts business return indicators – RBSSN's investment in RBOP, its Singapore-based subsidiary, remained at a similar level of Rs. 48.80 crore as on March 31, 2022. The investment was towards exploring mining opportunities in South East Asia, but the project has been put on hold due to regulatory restrictions, which constrains the overall business return indicators. ICRA understands that the major portion of investments in RBOP has been parked as fixed deposits/ current account (of 6.7 million USD and 0.02 SGD) with a bank in Singapore (as on March 31, 2022).

Planned large capital deployment towards new iron ore mine acquisition in Karnataka as well as forward integration would expose the company to execution and funding risks – RBSSN has been declared as the preferred bidder for M Srinivasalu (ML No. 2631), located at Chitradurga district in Karnataka, in e-auction on September 22, 2022. The letter of intent for a grant of mining lease has been issued by the Department of Mines and Geology and has been accepted by the company. The mine has been leased for 50 years and comes with a reserve of 9.88 million metric tonnes. The value of estimated resources of the concession area is Rs. 3,703 crore with an average Fe content of 55.08% and an annual production plan of 5.4 lakh TPA. The mines are expected to be commissioned after 18-24 months from September 22, 2022 and the premium payable to the State Government is 80.06%. Along with the new mine development, RBSSN has total planned investments worth ~Rs. 800 crore (including Rs. 40 crore for the mine mentioned above), where a phase-wise capital expenditure has been planned. Capex worth Rs. 450 crore has been planned for phase 1 (for the beneficiation, pellet plant, DRI and power plant) and Rs. 350 crore for phase 2 (for DRI plant, captive power plant, and SMS). ICRA understands that given the linkages with its existing operations, Rs. 100-110 crore of investments for mine development and beneficiation plant are expected to be incurred earlier than the investments in steelmaking and pellet plants. ICRA believes that such a large capex plan, which is over 1.5 times of the current balance sheet size, exposes the company to execution and funding risks, and can put pressure on the credit metrics if not funded with a judicious mix of debt and equity/ internal accruals. Timely commissioning and stabilisation of the upcoming units within the budgeted time and costs, and achievement of breakeven for the new projects would be monitored from the credit perspective.

Liquidity position: Adequate

RBSSN has generated positive free cash flows in four out of the last five years. This, coupled with its sizeable liquid investments amounting to Rs. 131. 62 crore in mutual funds as on March 31, 2022, keep the company's liquidity profile at adequate levels. RBSSN's total debt levels have also reduced to Rs. 78.8 crore as on March 31, 2022 from Rs. 90.3 crore as on March 31, 2021 due to repayment of long-term loans in FY2022. However, the large, planned capex could adversely impact the liquidity profile of the company and hence remains a key monitorable.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a sustained improvement in earnings and profitability metrics, supported by factors including the company's ability to timely commission and stabilise operations in the ongoing expansion projects.

Negative factors – Pressure on the ratings could arise in case of any sharp reduction in revenues and profitability of the company. The ratings could also be downgraded in case of any large debt-funded capex / investment, resulting in a deterioration in the liquidity profile of the company or if the net debt to operating profit ratio remains above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statements of the issuer

About the company

RBSSN was established as a partnership firm in 1951 and its corporate status was changed to a private limited company in 2012. It is involved in iron ore mining, with its mine located at Hospet, Karnataka. The company also has a beneficiation plant adjacent to the mine with an installed capacity of 5.0 mtpa, and wind power generation units in Karnataka with a total installed capacity of 23.2 MW. In 2017, RBSSN was granted a mining lease for stone quarry at Anantapur, Andhra Pradesh. The company's operations are managed by Mr. Ajay Saraf and his family.

In FY2022, the company reported a net profit of Rs. 69.0 crore on an operating income of Rs. 406.4 crore compared to a net profit of Rs. 11.1 crore on an operating income of Rs. 214.0 crore in FY2021.

Key financial indicators (audited)

Rai Bahadur Seth Shreeram Narsingdas Private Limited	FY2021	FY2022
Operating income	214.0	406.4
PAT	11.1	69.0
OPBDIT/OI	10.8%	25.1%
PAT/OI	5.2%	17.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	3.9	0.8
Interest coverage (times)	4.0	19.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 24, 2022	Sep 20, 2021	Oct 30, 2020	Sep 16, 2019
1 Term loans	Long Term	2.75	2.05	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
2 Demand Loan	Short Term	15.40	-	[ICRA]A2	-	-	-
3 Cash Credit	Long Term	60.00	54.97	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
4 Bank Guarantee	Short Term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
5 Unallocated	Long Term / Short Term	17.85	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term – Term Loan	Simple
Short Term - Demand Loan	Very Simple
Long-Term – Cash Credit	Simple
Short-Term – Bank Guarantees	Very Simple
Long-Term / Short Term – Unallocated	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 analysing 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	-	FY2025	2.75	[ICRA]BBB+(Stable)
NA	Demand Loan	-	-	-	15.40	[ICRA]A2
NA	Cash Credit	-	-	-	60.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	-	-	-	10.00	[ICRA]A2
NA	Unallocated Limits	-	-	-	17.85	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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