November 29, 2022

Rajlakshmi Minerals: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund-based –Term Loan	1.80	-	-
Long Term: Unallocated	16.20	18.00	[ICRA]BB+(Stable); reaffirmed
Total	**18.00**	**18.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Rajlakshmi Minerals (RLM) takes into account its close managerial and operational linkages with its sister concern, Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN, rated [ICRA]BBB+(Stable)/[ICRA]A2). As RLM is responsible for the outbound movement of iron ore from RBSSN's Karnataka mine, any disruption in operations at RLM will adversely impact RBSSN's operations. Moreover, ICRA expects RBSSN to be willing to extend financial support to RLM out of its need to protect its reputation from the consequences of a Group entity's distress. RLM, over the years, has commissioned wind power capacities, leading to a diversified revenue stream and higher profitability due to the attractive tariffs. In addition, significant pick-up in supply of iron ore in FY2022 amid favourable domestic demand supported the firm's healthy earnings growth. The growth trend is unlikely to continue going forward as the earnings outlook for FY2023 remains much weaker now as steel prices have witnessed sharp corrections in the current fiscal so far, thereby indirectly impacting RLM's operations. The rating reaffirmation also factors in RLM's comfortable capital structure and improved coverage indicators on the back of timely repayment of all its external debt obligations. That said, RLM proposes to incur a sizable capital expenditure for acquiring additional fleet / tippers at an estimated cost of Rs. 5-6 crore in the near term which is likely to be funded in a mix of debt and internal accrual. Despite the partly debt-funded capital expenditure, RLM's capital structure and coverage indicators are likely to remain comfortable.

The rating, however, is constrained by RLM's modest scale of operations, which limits its ability to withstand a sustained period of industry downturn. The rating also incorporates the high working capital intensive nature of RLM's operations partly due to large overdue receivables from Maharashtra State Electricity Distribution Company Limited (MSEDCL). ICRA notes that while RLM's wind receivables have declined over the last one and half years, it still remains in the range of 10-11 months. Timely receipt of receivable payments will remain a key rating monitorable. However, RLM's liquidity pool consisting of cash and liquid investment accumulating to Rs. 6.6 crore as on March 31, 2022 provides liquidity comfort to a certain extent. ICRA also notes that RLM remains exposed to the risks inherent in a partnership firm, including the risk of capital withdrawals by the partners.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that RLM will continue to benefit from its operational linkages with RBSSN.

Key rating drivers and their description

Credit strengths

Operational linkages with RBSSN - RLM is a sister concern of RBSSN, which is in the business of iron ore mining and beneficiation operations. RLM has operational linkages with RBSSN, whereby it transports iron ore sold by RBSSN to its customers.

Diversification of revenue source - RLM derives around 25% of its total revenues from wind power generation. The firm has power purchase agreements (PPA) with MSEDCL for its 4.25-Megawatt (MW) windmill units located at Bhendewadi, Maharashtra and at Chandrodi, Gujarat. The profitability of the firm is supported by its attractive tariff.

Comfortable capital structure and healthy coverage indicators - RLM's capital structure remains comfortable, marked by a gearing of 0.01 times as on March 31, 2022. Besides, RLM's capital structure is debt-free presently following repayment of all its external debt obligation. The coverage indicators also remained healthy in FY2022, with an interest coverage ratio of 313.8 times and total debt-to-operating profit ratio of 0.2 times due to its healthy operating profitability and low debt levels. Further, RLM's capital structure and coverage indicators are likely to remain comfortable notwithstanding partly debt-funded capital expenditure plans for acquiring additional fleet / tippers.

Credit challenges

Modest scale of operations - The firm's scale of operations remains modest, which makes it vulnerable to a prolonged period of industry downturn.

Working capital intensive nature of operations - RLM's working capital intensity reduced to 53.5% as on March 31, 2022 from 90.5% as on March 31, 2021 due to partial release of payments from MSEDCL. The receivables from MSEDCL accounted for ~50% of the total receivables for RLM as on March 31, 2022. However, the counterparty credit risks remain low as MSEDCL is a state distribution utility. Additionally, ICRA observes that there has been a steady trend in decline in MSEDCL receivables from Rs. 6.38 crore as on March 31, 2021 to Rs. 2.78 crore in November 2022. That said, the overdue wind receivables continues to remain at an elevated level of 10-11 months. Going forward, given the cash flows challenges of MSEDCL, a build up of receivables from MSEDCL cannot be ruled out.

Exposure to risks inherent in a partnership firm - Given RLM's constitution as a firm, it is exposed to discrete risks, including the possibility of capital withdrawal by the partners, which could adversely impact RLM's capital structure and leverage metrics.

Liquidity position: Adequate

RLM's liquidity is adequate with free cash and liquid investments amounting to Rs. 6.6 crore as on March 31, 2022 and nil external debt obligations as on date. The firm plans to incur a capex of Rs. 5-6 crore in the near term which will be funded through a mix of term loans and internal accruals of the firm. Going forward, any significant delay in the receipt of receivables could impact the liquidity profile and hence timely receipt of payments remains a key monitorable from the liquidity perspective.

Rating sensitivities

Positive factors – ICRA could upgrade RLM's rating in case of an improvement in its scale of operations and a significant reduction in its working capital intensity, thereby improving its liquidity

Negative factors – Pressure on RLM's rating could arise in case of a sustained decline in earnings and a further stretch in its receivables, resulting in a deterioration in its profits and liquidity profile. The ratings could also be downgraded if there is a significant deterioration in the credit quality of RBSSN, which is its largest customer, exposing the entity to elevated counterparty credit risks.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The rating assigned to Rajlakshmi Minerals (RLM) considers its close managerial and operational linkages with its sister concern, Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN, rated [ICRA]BBB+(Stable)/[ICRA]A2). Any disruption in operations at RLM will adversely impact the despatch of iron ore from RBSSN's Karnataka mine. ICRA expects RBSSN to be willing to extend financial support to RLM out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Established in 1996 as a proprietorship firm in Karnataka, RLM transports iron ore for its sister concern, RBSSN (rated [ICRA]BBB+ (Stable)/A2) and has presence in wind power generation. Its corporate status was changed to a partnership firm in January 2014, whereby its windmill operations of 7.3 MW were retained by RBSSN, while the transportation business and 3.4-MW windmill at Bhendewadi, Maharashtra were transferred to RLM. As on March 31, 2022, RLM had a fleet size of 23 tippers and windmill units of 4.25 MW capacity.

In FY2022, the company reported a net profit of Rs. 6.8 crore on an operating income of Rs. 17.0 crore compared to a net profit of Rs. 3.2 crore on an operating income of Rs. 11.4 crore in the previous year.

Key financial indicators (audited)

Rai Bahadur Seth Shreeram Narsingdas Private Limited	FY2021	FY2022
Operating income	11.4	17.0
PAT	3.2	6.8
OPBDIT/OI	43.0%	48.7%
PAT/OI	28.4%	40.4%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.4	0.2
Interest coverage (times)	69.1	313.8

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	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 FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 29, 2022	Sep 20, 2021	Oct 30, 2020	Sep 16, 2019
1 Term loans	Long Term	-	-	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2 Unallocated	Long Term	18.00	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-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	Unallocated Limits	-	-	-	18.00	[ICRA]BB+(Stable)

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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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.

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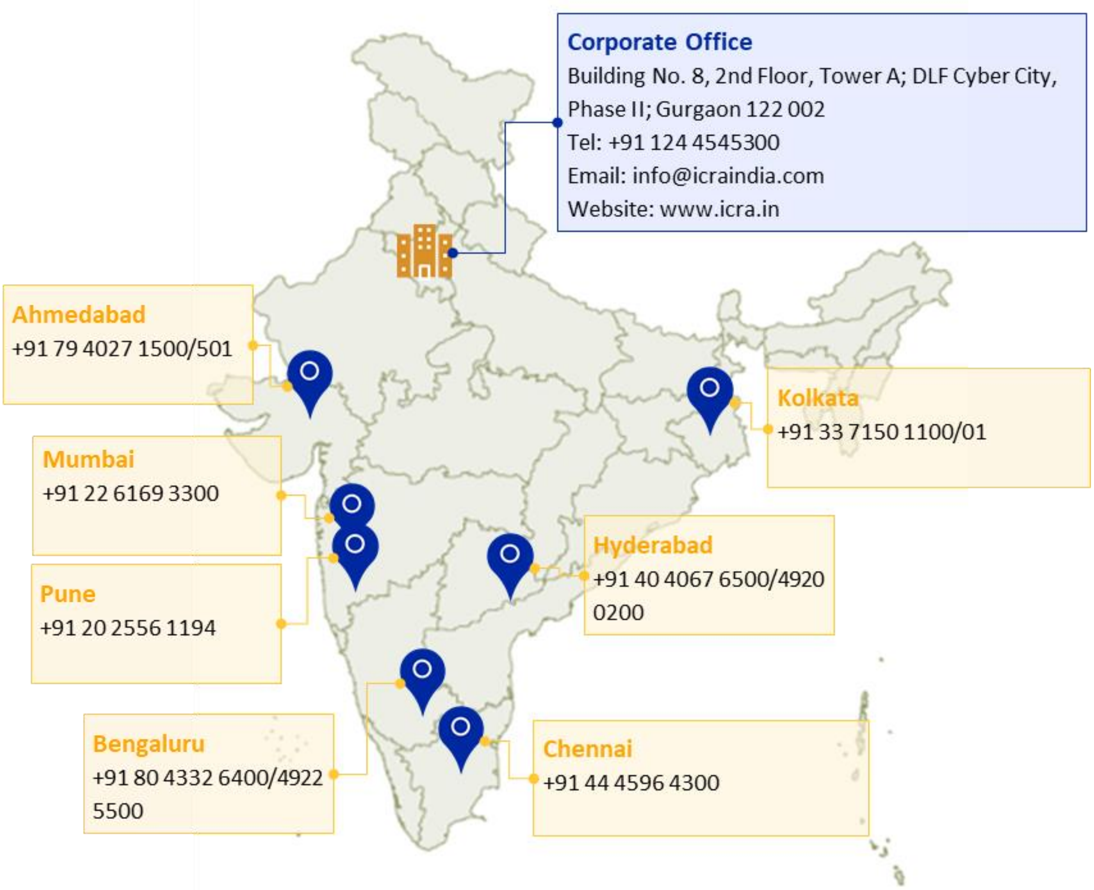

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