

September 30, 2024

Penguin Trading & Agencies Limited: Long-Term ratings upgraded to [ICRA]A+(Stable) and short-term ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based/Non Fund Based -Cash Credit	100.00	396.00	LT Rating upgraded to [ICRA]A+ (Stable) from [ICRA]A(Stable) and assigned for enhanced amount; ST rating reaffirmed/assigned for enhanced amount at [ICRA]A1;
Long term -Fund based Term Loan	0.00	50.00	[ICRA]A+ (Stable); assigned
Long-term/Short-term - Unallocated Limits	0.00	4.00	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
Total	100.00	450.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has factored in the consolidated financial profile of Penguin Trading & Agencies Limited (PTAL) due to the operational and financial linkages among PTAL and its subsidiaries.

The ratings action factors in PTAL's surge in earnings in FY2024 from the iron ore mining business and expected continuation of the healthy financial performance in FY2025. In FY2024, PTAL generated a consolidated OPBDITA of Rs.425 crore against Rs. 253 crore in FY2024, backed by a higher sales volume of ~2.4 million MT (mmt). The company has received environment clearance for ~2.53 mmt, which is expected to enhance further to ~3 mmt by the end of the current fiscal. ICRA notes that while the current iron ore prices remained subdued, higher sales volume would continue to support the healthy performance of the consolidated entity, with an expected revenue of ~Rs 1400 crore and OPBDITA of ~Rs 400 crore in FY2025. The entity has also applied to enhance the capacity from 3 mmt to 5 mmt, which once approved would further enhance the scale and profits of the entity. With higher production, the company has started direct export of a large quantity (~35-40% of total sales volume) of low-quality ore, which is expected to continue in the current fiscal as well. PTAL has also purchased two rakes from Indian Railways, which have the potential for earning additional rental income. The higher scale and profits along with low debt, resulted in healthy coverage indicators, which are likely to continue in the current fiscal as well.

The ratings continue to derive comfort from the long experience of the promoters in the iron-ore mining business. The mining lease of the company is valid up to 2036, with proven reserves of almost 31.61 million tonnes (MT) of iron ore. ICRA takes comfort from the sizeable reserves, long residual validity of the mining license and established presence of the company in the mining industry. ICRA also positively considers the competitive mining cost of PTAL, benefitting from operating a mine bagged under the erstwhile allotment regime having no revenue share, which leads to a distinct structural advantage and supports the overall profitability. Consequently, the credit indicators are expected to remain healthy in the near-to-medium term on the back of healthy profitability and modest borrowings. Also, the prudent and conservative expansion plans of PTAL further support the credit metrics of the company in the near-to-medium term.

The ratings are, however, constrained by the company's exposure to regulatory risks as it operates in a highly regulated mining industry and the cyclicity inherent in the consuming steel industry. Any unfavourable change in the mining policy by the Government may impact its revenue growth and profitability. Besides, PTAL derives the bulk of its consolidated revenues and profits from its single mine located in Odisha, thus exposing the company to mine-specific production disruptions like floods/natural calamities, labour unrest, and regulatory actions, which heighten the risk of volatility in cash flows. The rating

is also tempered by the significant increase in illiquid investments during the past four years (from FY2021 to FY2024), in the form of unsecured loans to companies with modest financial risk profile as well as PMS/AIF schemes. This has accentuated the counterparty credit and market risks, and adversely impacted the overall liquidity. In addition, PTAL's increase in investments in quoted securities further enhances its exposure to market risks. ICRA notes that the level of exposure and concentration of such risky and illiquid investments are key credit rating factors in the near term.

ICRA had earlier noted the recent ruling of the Hon'ble Supreme Court of India which upheld the state governments' power to tax mineral rights and mineral-bearing lands under Entries 49 and 50 of List II in the Constitution's Seventh Schedule. On August 14, 2024, the Supreme Court ruled that states have the discretion to decide on the retrospective application of the tax. However, any tax demand will not impact transactions conducted before April 1, 2005. In case of retrospective tax demand, payments will be spread over 12 years, starting from April 1, 2026. Additionally, interest and penalties on demands for the period before July 25, 2024, will be waived for all assesses. The states are yet to come out with their decision on imposition of such retrospective tax. ICRA will assess the impact of the Supreme Court ruling on the company given that it is involved in mining operations and take appropriate action when further clarity emerges from the states with respect to taxation of mineral rights following the Supreme court ruling.

The Stable outlook on the long-term rating reflects ICRA's expectations that PTAL will continue to benefit from the favourable demand outlook for long products emanating from the Government's infrastructure investment plans, which should support a healthy growth in demand for iron ore, in turn helping PTAL scale up its mining operations. This, along with its conservative growth plans are expected to keep its credit metrics at comfortable level in the near term.

Key rating drivers and their description

Credit strengths

Increase in scale from higher sales volumes in FY2024; further ramp up in the production expected – PTAL's scale of operations increased significantly in the last fiscal with volumes reaching 2.4 million tonnes from 1.5 million tonnes in FY2023. This increase was supported by the expansion of PTAL's production capacity from 2.16 million tonnes to 2,53 million tonnes, which is expected to further enhance to 3 mmt by end of the current fiscal. Further, backed by this capacity expansion the entity also commenced export operations. These exports are of the lower than 58% Fe content variety since it is duty-free. In the last fiscal 2.4 million tonnes was the entire sales volume out of which 9 lakh tonnes (37.5%) accounted for exports. The management is expecting to further expand the capacity to 5 mtpa over the medium term supporting the volumes moving forward. PTAL has also purchased two rakes from Indian Railways, which have the potential for earning additional rental income.

Healthy profitability and credit indicators, backed by cost-competitive operations and prudent growth plans – PTAL's consolidated revenues increased by around 85% year-on-year (Y-o-Y) in FY2024 supported by higher production and sales volume. The net profit margins also increased to 38% from 30%. Although the entity's debt levels increased to support the expansion the entity's coverage indicators remained healthy supported by the sizeable increase in the operating profits. Further the entity's relatively lower cost of operations and nominal capex is expected to keep the credit indicators comfortable in the near to medium term.

High share of lumps along with a long residual lease tenure without revenue share supports profitability and revenue visibility; significant cost advantage over newly auctioned mines, given the significantly lower regulatory charges-The mining lease of the company is valid upto 2036, with proven reserves of almost 22.16 million mt of iron ore. ICRA takes comfort from the sizeable reserves, long validity of the mining license and established presence of the company in the mining industries also positively considers the competitive mining cost of PTAL, benefitting from operating a mine bagged under the erstwhile allotment regime having no revenue share, which leads to a distinct structural advantage and supports overall profitability. Additionally, a higher share of lumps in the sales mix positively impacts the operating profile of the entity.

Long experience of the promoters in the iron-ore mining business – The promoters have been involved in the iron-ore mining business for more than three decades. The original lease of the mine, owned by PTAL, was obtained in 1986. Initially the mining lease was in the name of Mr. R. L. Bathwal, the Promoter of the Group. In 1991, the mining lease was transferred to PTAL. The company's original mining lease was valid till 2006, following which it obtained the first renewal with validity till 2026. However, as per The MMDR Amendment Act, 2015, the company's lease validity has been extended by 10 more years to 2036.

Credit challenges

Risks arising from operating in a highly regulated iron ore mining industry –PTAL remains vulnerable to regulatory risks associated with the iron ore mining industry in India and the cyclicity inherent in the consuming steel industry. For mining without/beyond the approved limit as per EC, the company had to pay a sizeable demand (around Rs. 47 crore) raised by the Government of Odisha (GoO) in FY2018. In addition, the company received a demand of Rs. 5.58 crore raised by the GoO for producing above the limit permitted by the mining plan/consent to operate (CTO) and an additional demand of Rs. 6.70 crore related to royalty. However, these last two demands accumulating to Rs. 12.28 crore have been legally contested by PTAL along with other miners and stay orders on the demands have been received until a legal resolution. Further, in the current year Supreme Court has passed a verdict that has upheld the power of states to levy taxes on mineral rights and mineral bearing land applicable on a retrospective basis. ICRA will assess the impact of the Supreme Court ruling on the company's mining operations and take appropriate action when further clarity emerges.

Exposure to asset concentration risk –PTAL derives bulk of its consolidated revenues and profits from its single mine located in Odisha, thus exposing the company to mine-specific production disruptions like floods/natural calamities, labour unrest, and regulatory actions, which heighten the risk of volatility in cash flows.

Exposure to cyclicity inherent in the consuming steel industry –The demand and price of iron ore would depend on the consuming steel industry, which is cyclical in nature. Though PTAL's cost of mining remains competitive, the movement of iron ore prices, going forward, would remain critical to its profitability.

Steadily rising portfolio of risky investments in illiquid securities in the form of unsecured loans and advances, which exposes the company to counterparty credit risks—A gradual increase in illiquid investments during the past four years, with a significant increase in the last fiscal in the form of unsecured loans to the companies with modest profile as well as PMS/AIF schemes has accentuated the counterparty credit and market risks, and adversely impacted the overall liquidity. In addition, PTAL's increase in investments in quoted securities further enhance its exposure to market risks. ICRA notes that the level of exposure and concentration of such risky and illiquid investments are key credit rating Factors in the near term.

Liquidity position: Adequate

The company's liquidity is expected to remain **adequate** in the short to medium term supported by healthy undrawn WC lines (>Rs 190 crore as on July 2024) and comfortable cash flow from operations (~Rs 200-250 crore). Against these sources of cash, the company has negligible capex commitments and term debt repayments.

Rating sensitivities

Positive factors – Significant scaling up of operations with sustained period of higher earnings and diversification of asset concentration risk while maintaining strong debt coverage matrices.

Negative factors – Pressure on PTAL's ratings may arise due to a significant weakening of iron ore demand and realisations or due to any adverse regulatory development in the industry. Any large debt-funded capex/acquisition, resulting in significant weakening of leverage and coverage indicators and liquidity position could also lead to a ratings downgrade. Specific triggers for downgrade would be Total Debt/OPBDITA greater than 0.8 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	For arriving at the ratings, ICRA has considered the consolidated financials of PTAL. As on March 31, 2024 (audited financial statements), the company had three subsidiaries and six associates.

About the company

Penguin Trading & Agencies Limited (PTAL) was incorporated in August 1981 by the Kolkata-based Bathwal family. PTAL, the flagship entity of the group, is an iron-ore miner. The company's iron-ore mine is located at Raikela and Tantara villages in the Sundargarh district of Odisha, which falls under the Koira mining belt. The iron-ore mine of PTAL has a proven mineral reserve of 31.612 million tonne (MT) and an opencast mining capacity of 2.16 million tonne (MT) which is under process of enhancement to 3 million tonnes (MT). The mining lease is valid till 2036. PTAL's erstwhile wholly owned subsidiary, Bhagawati Steels Private Limited (BSPL), involved in sponge-iron manufacturing with a capacity of around 15,000 TPA has been merged with PTAL and the effect of the merger has been affected in the audited financials of FY2020. The merger was sanctioned by NCLT, Kolkata vide its order dated July 31, 2020. Erstwhile subsidiary entity Seven Star Steels Limited has also ceased to be a subsidiary of PTAL w.e.f. February 10, 2022 as PTAL's shareholding fell from 68.08% to 19.08%.

Key financial indicators (audited)

PTAL (Consolidated)	FY2021	FY2022	FY2023	FY2024*
Operating income	441.8	654.1	717.9	1,328.5
PAT	115.5	205.1	211.4	505.6
OPBDIT/OI	37.2%	35.5%	35.3%	32.0%
PAT/OI	26.1%	31.4%	29.5%	38.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.2	0.4	0.4
Total debt/OPBDIT (times)	0.9	0.1	0.5	0.7
Interest coverage (times)	20.8	29.3	54.4	26.5

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

*ICRA has consolidated the financials on best effort basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Sep 30, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based/Non Fund Based -Cash Credit	Long term and short term	396.00	[ICRA]A+ (Stable)/ [ICRA]A1	Aug 26, 2024	[ICRA]A (Stable)/ [ICRA]A1	Jun 30, 2023	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
Long term -Fund based Term Loan	Long Term	50.00	[ICRA]A+ (Stable)	-	-	-	-	-	-	-	-
Unallocated Limits	Long term and short term	4.00	[ICRA]A+ (Stable)/ [ICRA]A1	Aug 26, 2024	-	Jun 30, 2023	-	Apr 04, 2022	[ICRA]A (Stable)/ [ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based/Non-Fund Based-Cash Credit	Simple
Fund based Term Loan	Simple
Unallocated Limits	N/A

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 Outlook	Rating and
NA	Fund Based/Non Fund Based -Cash Credit	NA	NA	NA	396.00	[ICRA]A+ (Stable)/[ICRA]A1	
NA	Fund based Term Loan	2023	NA	2027	50.00	[ICRA]A+ (Stable)	
NA	Unallocated Limits	NA	NA	NA	4.00	[ICRA]A+ (Stable)/[ICRA]A1	

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Instrument Name	Ownership	Consolidation Approach
Power International DMCC	100.00%	Full Consolidation
Bathwal Plastics Limited	51.45%	Full Consolidation
Prayam Odish Metalik	100.00%	Full Consolidation
PTA 27 DMCC	100.00%	Equity Method
Loucal Promoters Private Limited	35.19%	Equity Method
Calmo Estates Private Limited	43.63%	Equity Method
Laxmi Fiscal Services Private Ltd	43.80%	Equity Method
Shalini Fertilisers Limited	30.56%	Equity Method
SV Plaza Private Limited	23.11%	Equity Method

Source: PTAL

ANALYST CONTACTS

Gririshkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 440693396410
vikram.v@icraindia.com

Sumit Jhunjunwala
+91 33 7150 1111
sumit.jhunjunwala@icraindia.com

Rishin Devnath
+91 8340059424
rishin.devnath@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



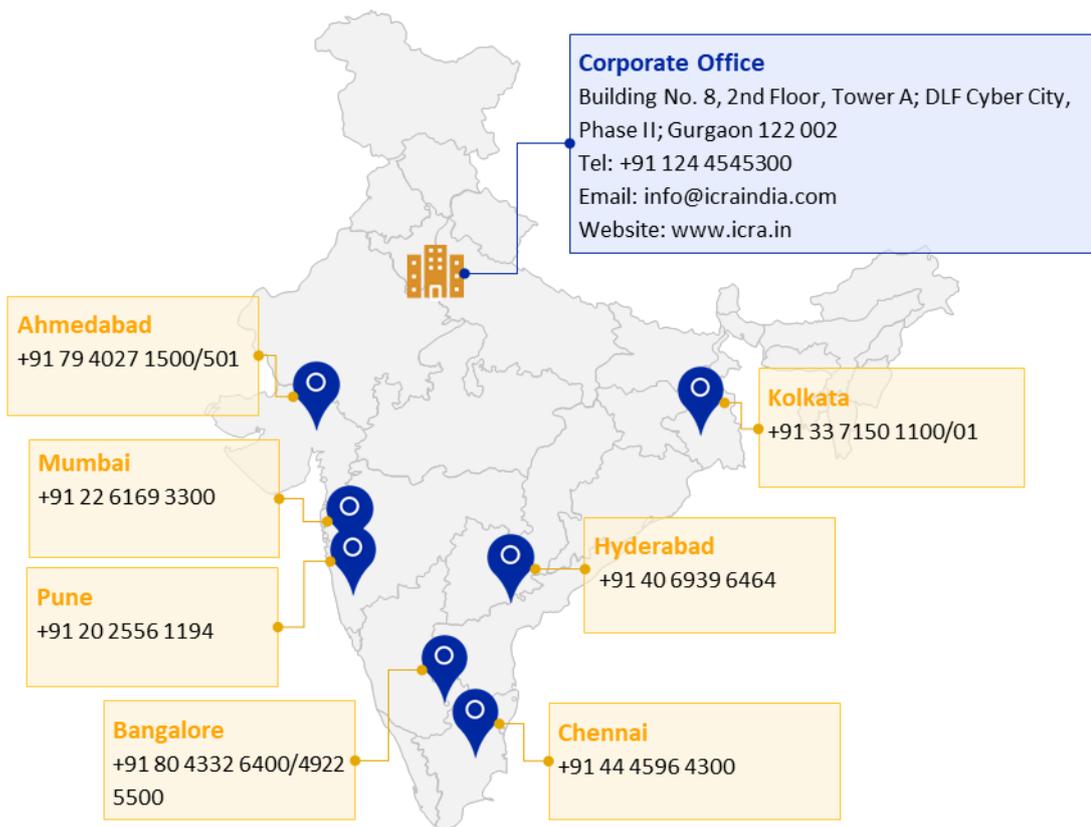
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.