

March 08, 2021

EICL Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based-TL	15.00	15.00	[ICRA]BBB+ (Negative); Reaffirmed
Long term / Short term -Fund-Based	45.00	45.00	[ICRA]BBB+ (Negative)/ [ICRA]A2; Reaffirmed
Short term-Non-Fund-Based	7.50	7.50	[ICRA]A2; Reaffirmed
Total	67.50	67.50	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to derive comfort from the established market position of EICL Limited (EICL) in the domestic processed clay market, its diversified customer base across various industries and healthy financial flexibility as part of the Karan Thapar Group. With over 50 years of developing kaolin-based hydrous and calcined solutions, EICL enjoys a dominant market share in the domestic clay market. The company caters to a reputed client base spanning industries as varied as paper, paint, rubber, ink, tyres, etc, of which the paint and paper industries constituted ~86% of the company's revenues in FY2020. Although 50% of the company's revenue is driven by its top 10 customers, many of them are market leaders in their respective sectors, and EICL has established relationships with them, which has enabled it in sustaining its share of business. EICL's business profile is also supported by captive mines, which ensures availability of quality and cost competitive raw materials and protection from any major volatility in raw material pricing.

EICL's business is exposed to regulatory restrictions over mining of kaolinite. Apart from any significant change in royalty rates, this can considerably impact the availability of raw material, affecting the profitability of the company. Following the reclassification of clay as a minor mineral and an order from the Hon'ble High Court of Kerala, EICL was forced to discontinue mining operations and secure environment clearance (EC) and other regulatory approvals for its existing mining sites. As a result, the company had been sourcing key raw materials from small miners in Kerala, Bhuj (Gujarat) and imports for the last two years, which adversely impacted its cost structure, leading to sharp contraction in earnings. Due to delays in securing ECs, and the consequent shortage of raw materials, the company had temporarily closed its factory units at Kochuveli and Thonnakkal in August 2020.

Although the company is yet to receive ECs for most of its mines, it has been allowed to resume mining at one of its major mines at Thonnakkal. Accordingly, the company gained access to quality raw materials from its Thonnakkal mine and restarted its operations at its Thonnakkal plant from November 2020. However, the operations at the Kochuveli plant continue to remain suspended, and the company has announced interim payments to its workers, which is expected to be funded by sale of sand tailings. ICRA will continue to monitor the progress in securing ECs for the remaining mines and resumption of operations at the Kochuveli plant, along with the impact of the same on EICL's financial risk profile.

ICRA notes that EICL has established a manufacturing facility in Bhuj, Gujarat, through its 100% owned subsidiary, Kaolin India Private Limited (KIPL), to cater to the growing customer demand as well as for de-risking its business profile from its dependence on mines in Kerala. Additionally, this would also help save on transportation costs. The project has been primarily funded by financial support from EICL's promoters in the form of preference shares and inter-corporate deposits (ICDs), and is expected to commence operations from March 2021.

Owing to weak cash flow generation, the company's dependence on working capital borrowings has remained relatively high at an average utilisation of 74% during the 9-month period ending in December 2020. However, ICRA draws comfort from the

financial support extended by EICL's promoters in the form of ICDs. To improve its liquidity profile and reduce its leverage, the company has plans to monetise its surplus land parcels at Shimoga (Karnataka) and Cuddalore (Tamil Nadu); however, these are yet to materialise. ICRA would continue to monitor the developments in this regard.

The Negative outlook on the rating reflects ICRA's view that in the backdrop of the regulatory issues pertaining to receipt of approvals for mining operations, the performance of the entity is likely to remain constrained over the near to medium term. A prolonged weakness in performance as a result of adverse regulatory developments could lead to a weakening of its credit profile.

Key rating drivers and their description

Credit strengths

Financial flexibility as part of the Karan Thapar Group; experienced promoters and management team with over 30 years of business experience – EICL enjoys significant financial flexibility as part of the Karan Thapar Group, which has an extensive track record of managing diverse businesses such as industrial gear boxes, farm equipment and automotive engines, among others, through companies such as Greaves Cotton Limited and Premium Transmission Private Limited (rated [ICRA]A (Stable)/[ICRA]A1). In addition to the strong promoter group, EICL's management team has extensive experience in the clay mining and processing industry, thereby supporting its business prospects and operations.

Leading player in the processed clay segment with strong client profile in the paint and paper industries – EICL has extensive experience in manufacturing varieties of processed clay. It has an established customer base of both direct clients as well as dealers and distributors, through which it caters to a reputed clientele across various industries, especially paper, paint and rubber.

Business profile supported by captive mining infrastructure and strong R&D capabilities – EICL sources its raw material from captive clay mines in Kerala, which ensures availability of quality raw material and protection from any major volatility in raw material prices. Collectively, these mines have adequate reserves for the next 15-20 years of operations at the steady state requirement of raw material of 6 lakh tonne p.a. The backward integration set-up also aids in strong pricing power and margins. ICRA notes that the company's profit margins had been impacted over the past two years since the mining operations had been suspended due to lack of ECs; however, the company has now received approval to operate one of its major mines, which would ensure availability of raw materials and aid in recovery in the profit margins. Apart from access to captive mines, EICL also benefits from its strong R&D team, which continuously works on improving the product mix and producing value-added products.

Credit challenges

Significant deterioration in financial profile due to restrictions on mining operations – With its mining operations being disrupted, the company had to source raw materials externally at a much higher cost. As a result, EICL's profitability was severely impacted, ending FY2020 with a marginal EBITDA of Rs. 0.4 crore and a PAT loss of Rs. 9.3 crore (after non-operational expenses of Rs. 5.6 crore) compared to an EBITDA of Rs. 35.3 crore and PAT of Rs. 11.7 crore in FY2019. The coverage indicators also deteriorated with interest cover at 0.1 time (PY: 5.7 times) as on March 31, 2020 because of the steep deterioration in profitability. The company's financial performance was further impacted during 9M FY2021 by lockdown restrictions and the adverse impact of Covid-19 on the demand for clay during April-May 2020 and shutdown of operations during August–October 2020 due to shortage of raw materials. Nevertheless, the company received approval to resume mining at one of its mines, which provided access to quality raw materials and it resumed operations at one of its plants from November 2020; with access to own mine reserves, the company's profitability recovered to some extent during Q3 FY2021.

Exposed to regulatory risk associated with clay mining industry – EICL remains exposed to regulatory risk associated with the clay mining industry. Its mining operations were disrupted over the last two fiscals, following an order from the High Court of Kerala in October 2018, which directed EICL to stop mining pending compliance with certain conditions and payment of

penalty. The company subsequently paid the penalty and has been awaiting ECs from the Government. In the interim, its operations remained affected, with the company procuring raw materials from external sources (at higher cost), thus impacting its earnings. Although the company is yet to receive ECs for most of its mines, ICRA notes that it has been allowed to resume mining at one of its major mines, which would ensure availability of quality raw materials, going forward.

Liquidity position: Stretched

EICL's liquidity profile is stretched, given the weak cash flow generation, relatively high utilisation of working capital borrowings (average utilisation of Rs. 17.3 crore over the average drawing power of Rs. 23.1 crore during the 9-month period ending in December 2020) and limited cash and liquid balances of ~Rs. 0.3 crore as on December 31, 2020. Against this, the company has debt repayments of Rs. 1.7 crore in Q4 FY2021 and Rs. 6.9 crore in FY2022 and minimal capex requirements. Although the company is setting up a subsidiary in Bhuj (Gujarat), the capex for the same will mostly be funded by EICL's promoters. ICRA expects the company to meet its debt obligations and capex requirements from a mix of available lines of credit, unsecured loans from promoters and additional external borrowings.

Rating sensitivities

Positive factors – Given the negative outlook, a rating upgrade is unlikely in the near-term. However, for revising the outlook to stable and considering a rating upgrade, scale up in operations besides improvement in the profitability, credit metrics and liquidity position would be critical.

Negative factors – Negative pressure on EICL's rating shall arise with continued deterioration in the financial and liquidity profile due to delays in securing ECs (or) any cessation of operations. Any impact on the company's operations due to labour unrest could also exert pressure on the company's financial performance and, consequently, the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the rated entity. The company has one subsidiary, Kaolin India Private Limited (KIPL).

About the company

EICL is engaged in the mining of clay (kaolin) and the manufacturing of processed clay, which finds application in various industries, especially in the paper and paint industries. The company's manufacturing plants are in Kerala with a combined production capacity of around 2,00,000 MT annually. EICL is also setting up another manufacturing facility in Bhuj (Gujarat) through its 100% subsidiary, Kaolin India Pvt. Ltd. (KIPL), which is expected to start production from March 2021. EICL enjoys established relationships with many of the leading paint and paper companies, and derives its business strength from the availability of captive mines and regular investments in new product introduction. The company's captive mines are also spread across five different locations in Kerala. The company was sourcing its raw material requirements from its Kerala mines till October 2018, however, when an order from the Kerala High Court placed certain conditions on mining, EICL's mining operations had to be discontinued pending ECs. The company has now received approvals for two of its mines at Thonnakkal, Kerala, which is expected to help stabilise the business operations. Till FY2018, the company was also manufacturing starch and allied products. This business was discontinued during FY2018-FY2019 over concerns of commercial viability.

Incorporated in November 1963, the company is a part of the Karan Thapar Group, which operates diverse businesses such as industrial gear boxes, farm equipment and automotive engines, among others, through companies such as Greaves Cotton Limited, Premium Transmission Limited (rated [ICRA]A (Stable)/ A1) and EICL Limited. DBH International Private Limited (holding company) and Karun Carpets Private Limited are promoter companies of EICL, together holding 91.7% stake in the company. EICL was a listed entity till FY2014, but later its shares were delisted.

In FY2020, the company reported a net loss of Rs. 9.3 crore on an operating income (OI) of Rs. 203.3 crore compared to a net profit of Rs. 11.7 crore on an OI of Rs. 272.4 crore in FY2019.

Key financial indicators (audited)

EICL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	272.4	203.3
PAT (Rs. crore)	11.7	-9.3
OPBDIT/OI (%)	12.9%	0.2%
PAT/OI (%)	4.3%	-4.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	1.3	65.6
Interest Coverage (times)	5.7	0.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Note: 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 (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Current Rating	Earlier Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					Mar 08, 2021	Aug 20, 2020 Jul 30, 2020	Dec 12, 2019	Sep 04, 2019	Aug 10, 2018	Jul 13, 2017	
1	Fund Based-Term Loan	Long Term	15.00	10.00	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund-Based	Long Term/ Short Term	45.00	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	
3	Non-fund-based	Short Term	7.50	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	
4	Commercial paper	Short Term	-	-	-	-	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Long term-Fund Based-TL	FY2020	NA	FY2023	15.00	[ICRA]BBB+ (Negative)
NA	Long term/ Short term -Fund-Based	NA	NA	NA	45.00	[ICRA]BBB+ (Negative)/ [ICRA]A2
NA	Short term-Non-Fund-Based	NA	NA	NA	7.50	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	EICL Ownership	Consolidation Approach
EICL Limited	100.00% (rated entity)	Full Consolidation
Kaolin India Private Limited	100.00%	Full Consolidation

Note: ICRA has taken a consolidated view of the parent (EICL), and its subsidiary while assigning the ratings.

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