

December 02, 2021

Ramgad Minerals and Mining Limited: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1+

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	120.00	106.09	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund Based - Cash Credit	10.00	-	-
Short -Term - Non Fund-based	120.00	120.0	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated	-	23.91	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Total	250.0	250.0	

[^]Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings of Ramgad Minerals and Mining Limited (RMML), ICRA has taken a consolidated view of RMML and MSPL Limited (MSPL; rated [ICRA]A+ (Stable)/A1+), along with its subsidiaries – MSPL Maritime Pte Limited (MMPL) and its step-down subsidiary MSPL Diamond Pte Limited (MDPL or shipping subsidiary), due to their common management and significant financial linkages between the entities, including the corporate guarantee extended by MSPL on behalf of MDPL's borrowings and loans extended by RMML to MSPL.

The upgrade in ratings consider the significant turnaround in the performance of the shipping subsidiary on the back of rising charter rates, and ICRA's expectation that it will be able to service both principal and interest payments from its own cash flows going forward. It also factors in the buoyant prices of iron ore and pellets, which has supported strong free cash generation for the mining and pellet businesses in H1 FY2022, a trend ICRA expects will sustain over the near term. ICRA notes that RMML's mining lease for the 0.5-million tonnes per annum (mtpa) Iyali Gurunath iron ore mine is valid till February 2026, which provides a significant cost advantage in the prevailing scenario, wherein new mines have been seen to be auctioned at high premiums. The ratings factor in RMML's healthy profitability and debt coverage metrics in FY2021 and H1 FY2022, which are expected to remain comfortable in the near to medium term, supported by favourable iron ore prices. The ratings note the established track record of the Baldota Group of over six decades in the iron ore mining industry. The ratings continue to take comfort from the company's considerable wind-energy generation capacity of 67.8 MW spread across Karnataka, Rajasthan, Maharashtra and Gujarat, which augments revenues and cash flows. The ratings also derive comfort from the company's significant investments in fixed deposits and equity shares resulting in a healthy liquidity profile.

The ratings are, however, constrained by the debt-funded capital expenditure incurred towards purchase of a 700-TPD air separation unit and a large investment in a greenfield gold mine project, which are yet to become operational. The company remains exposed to regulatory risks present in the mining industry and to the volatility in iron ore prices, given the inherent cyclicity in the end-user segments.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that RMML will continue to benefit from its highly profitable iron ore mining business and will maintain a comfortable capital structure and healthy liquidity position in the near to medium term.

Key rating drivers and their description

Credit strengths

Turnaround in MSPL's shipping subsidiary – MDPL's operating income (OI) more than doubled (annualised basis) to Rs. 124.7 crore in H1 FY2022 against Rs. 104.8 crore in FY2021. This was due to a sharp rise in charter rates, with the average charter rates increasing to \$21,988 per day in H1 FY2022 from \$8,766 per day in FY2021. Consequently, MDPL could meet both its principal and interest servicing obligations in H1 FY2022 from its own cash flows. ICRA expects the charter rates to remain healthy going forward, and hence the funding support from MSPL would be limited. While the management wanted to divest the shipping assets earlier, the plans have been put on hold at present as it is generating sufficient cash flows to service its debt. MDPL's total debt stood at \$52.4 million as on September 30, 2021 against \$58.7 million as on March 31, 2021 and \$91.2 million as on March 31, 2020.

Healthy profitability and coverage indicators, backed by competitive cost of production and favourable iron ore prices – RMML's cost of production from the Iyali Gurunath iron ore mine remains competitive, supported by its significantly lower revenue share with the state government compared to mines, which have been won through the auction route. This provides a structural advantage to the company during the tenure of the current lease validity expiring in February 2026, as reflected by its healthy profit margins across business cycles. RMML reported an annualised revenue growth of 58% in H1 FY2022, supported by a sharp rise in iron ore prices. While the average iron ore realisation increased to Rs. 4,251 per metric tonne (MT) in H1 FY2022 from Rs. 2,865 per MT in FY2021, the operating margin improved to 65% in H1 FY2022 from 60.6% in FY2021. The debt coverage indicators remained comfortable with total debt-to-operating profit of 0.6 times and interest cover of 25.8 times in H1 FY2022. The coverage metrics are expected to remain favourable in the near to medium term on the back of healthy profitability.

Established track record of Baldota Group in iron ore mining industry – RMML and MSPL are part of the Baldota Group. RMML operates Iyali Gurunath iron ore mine in the Bellary district of Karnataka with adequate reserves of moderate quality iron ore and mining lease validity till February 2026. ICRA takes comfort from the considerable experience of the promoters in the mining sector.

Sizeable wind-energy generation capacity augments revenue and cash flows – RMML has considerable wind energy generation capacity of 67.8 MW through its wind assets in Karnataka, Maharashtra, Gujarat and Rajasthan. Power purchase agreements signed with the respective state discoms provide a steady flow of revenues and diversify the company's sales mix.

Healthy investments maintained by the company – MSPL maintains significant investments in fixed deposits, which support its liquidity and financial flexibility. Besides unencumbered fixed deposits Rs. 773.9 crore as on September 30, 2021, the company had investments of Rs. 475 crore in quoted equity shares, which provides additional cushion to the liquidity. It also has investment in unquoted equity shares worth Rs. 388.1 crore as on September 30, 2021.

Credit challenges

Large capex incurred by RMML in the past yet to generate any returns – RMML had incurred capital expenditure of Rs. 150 crore towards purchase of a 700-TPD air separation unit for production of oxygen to cater to the requirements of steel industries. A large part of this was funded by debt. However, the company could not suitably deploy the same to a productive use and is therefore now planning to sell the assets. The ratings remain constrained by the uncertainty over its future capex plans towards the greenfield gold mine project at Kappatagudda, which is under litigation. Till date, the company has spent around Rs. 70 crore towards development of this gold mine.

Risks arising from operating in highly regulated iron ore mining industry; margins exposed to volatile iron ore prices – RMML's earnings from the mining business remains volatile, as it is exposed to fluctuations in the prices of iron ore and any changes to the regulatory framework (as witnessed by the mining restriction in Karnataka and Goa in the past). Moreover,

additional supply with restart of Donimalai mine by NMDC Limited in February 2021 and commencement of the captive mine operations of JSW Steel Limited could limit the upside to iron ore prices in the medium term.

Impact of variability in wind speed and grid availability on PLFs – RMML’s credit profile is partly constrained by the risks inherent to wind power generation like seasonality in generation of wind power and counterparty risk associated with timely realisation of dues from the state discoms.

Liquidity position: Strong

The consolidated liquidity position is likely to remain **strong** over the next 12-18 months, supported by unencumbered fixed deposits of Rs. 773.9 crore as on September 30, 2021 and healthy free cash flows from the mining and pellet business. MSPL’s consolidated cash accruals in FY2022 and FY2023 are likely to remain higher than its equity contribution towards the proposed capex and consolidated debt repayment obligations of Rs. 261.4 crore in FY2022 and FY2023, which makes ICRA believe that the company is poised to become net debt negative by end-March 2022. MSPL has sizeable investments in quoted equity shares, which amounted to Rs. 475 crore as on September 30, 2021 and unutilised fund-based limits of ~Rs. 110 crore (vis-a-vis drawing power) as on September 30, 2021, which lends additional comfort to its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade RMML’s ratings if the company demonstrates substantial increase in its scale of operations while maintaining healthy operating margins, moderate working capital intensity and a conservative capital structure.

Negative factors – Negative pressure on RMML’s ratings could arise if any unexpected major debt-funded capex/acquisition leads to a deterioration in its debt protection metrics. Specific metrics which can exert pressure on the ratings includes consolidated net debt-to-operating profit above 1.5 times on a sustained basis and/or consolidated core ROCE remaining below 15%, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology for Wind Power Producers Rating Methodology for Entities in the Shipping Industry Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MSPL Limited along with its subsidiaries and a group company, RMML. As on March 31, 2021, the company had three subsidiaries that are enlisted in Annexure-2.

About the company

Ramgad Minerals and Mining Limited was set up as a partnership concern in 1979 and was reconstituted as a public limited company in 2009. RMML is a part of the Baldota Group of Companies, which has presence in diversified businesses such as iron ore mining, metal exploration, power, industrial gases and shipping. RMML held mining lease for three iron ore mines in Bellary district, of which only one is operational at present. RMML also owns wind assets spread across Gujarat, Karnataka, Rajasthan and Maharashtra and has a total installed capacity of 67.75 MW. It also holds a mining lease for a gold mine in Gadag district of Karnataka, but the mine is yet to start operations due to pending litigation.

Key financial indicators

Consolidated financials (Ind AS)	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	1552.1	1651.6
PAT (Rs. crore)	289.0	437.4
OPBDIT/OI (%)	41.7%	48.5%
PAT/OI (%)	18.6%	26.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	2.2	1.2
Interest Coverage (times)	6.4	9.7

Source: Company; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: MSPL

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Oct 31, 2021	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Dec 2, 2021	Mar 5, 2021	Jan 31, 2020	Oct 22, 2018	
1	Term Loans	LT	106.09	106.09	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Cash Credit	LT	-	-	-	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Non fund-based	ST	120.0	-	[ICRA]A1+	[ICRA]A1	[ICRA]A2	[ICRA]A2	
4	Unallocated	LT	23.91		[ICRA]A+ (Stable)	-	-	-	

Amount in Rs. crore; LT – Long Term; ST – Short Term

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Very Simple
Non-fund based	Very Simple
Unallocated	NA

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	Term Loans	FY2017	-	FY2027	106.09	[ICRA]A+ (Stable)
NA	Non-fund based	-	-	-	120.0	[ICRA]A1+
NA	Unallocated	-	-	-	23.91	[ICRA]A+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aares Iron & Steel Limited	100.00%	Full Consolidation
MSPL Maritime Pte	100.00%	Full Consolidation
P Venganna Setty & Bros	90.00%	Full Consolidation
Ramgad Minerals and Mining Limited	Group company	Full Consolidation

ANALYST CONTACTS

Jayanta Roy

+91 33 2287 6617

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Ritabrata Ghosh

+91 33 71501107

ritabrata.ghosh@icraindia.com

Anshuman Bharati

+91 22 6169 3351

anshuman.bharati@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



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