

December 02, 2021

MSPL 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	215.0	418.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund Based - Cash Credit	330.0	330.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Short -Term – Non-fund based	400.0	400.0	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated	150.0	172.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Long -Term – Non-fund based	655.0	430.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Total	1750.0	1750.0	

[^]Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of MSPL Limited (MSPL), along with its subsidiaries – MSPL Maritime Pte Limited (MMPL) and its step-down subsidiary MSPL Diamond Pte Limited (MDPL or shipping subsidiary) and a Group company Ramgad Minerals and Mining Limited (RMML; rated [ICRA]A+ (Stable)/[ICRA]A1+), 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 MSPL's mining and pellet businesses in H1 FY2022, a trend ICRA expects will sustain over the near term. The ratings continue to note MSPL's large wind energy generation capacity of 127.8 MW spread across Karnataka, Maharashtra and Gujarat, which augment revenues and cash flows, and the established track record of the Baldota Group spanning over six decades in the iron ore mining industry. While the mining lease of Vyasnakere Iron Ore Mine (VIOM) is expiring in November 2022, ICRA notes that all the four captive mines bagged in 2016 and 2019 are likely to be operational by FY2023. This would result in an assured supply of iron ore for the pellet plant, mitigating the raw material availability risks. The operationalisation of all the mines in a timely manner before the lease expiry of VIOM would be critical, and thus would remain a key rating monitorable. The ratings derive comfort from the company's significant investments in fixed deposits and equity shares resulting in a healthy liquidity profile.

The ratings, however, are constrained by the significant capital expenditure plan at a consolidated level. ICRA notes that MSPL is undertaking a sizeable capex of Rs. 525 crore (Rs. 251 crore incurred till September 30, 2021) in FY2022, towards the development of new iron ore mines won under the category-C mine auctions, setting up of associated beneficiation plants and a 17-MW windmill project in Hospet, which exposes the company to project implementation risks. The ratings factor in the highly regulated nature of the iron ore mining industry as well as the exposure to inherent cyclicality in iron ore and pellet prices. Moreover, ICRA believes that with MSPL's average auction premia for its new mining leases being over 100%, the profit

from the mining division is poised to decline significantly from FY2024 onwards. ICRA also takes cognisance of MSPL's sizeable contingent liabilities, primarily towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that MSPL will continue to benefit from its highly profitable iron ore mining business and the favourable domestic demand outlook for pellets 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.

Surge in earnings from mining and pellet businesses – MSPL's standalone revenues rose by 38% (annualised basis) to Rs. 938.1 crore in H1 FY2022 from Rs. 1,358.2 crore in FY2021, supported by a sharp rise in iron ore and pellet prices. The operating margin improved to 58.9% in H1 FY2022 from 46.2% in FY2021. ICRA expects the iron ore and pellet prices to remain healthy in the near to medium term, thereby supporting the top line and profit margins.

Captive mines to provide assured supply of iron ore for the pellet plant – The company emerged as a preferred bidder for four category-C captive mines in Karnataka - Karthikeya Mines (KM) and Lakshminarayan Mining Company (LMC), which were awarded in 2016, and H. G. Rangangouda (HGR) and Kahaiyalal Dudheria (KLD), which were awarded in 2019. These four mines have an approved mining capacity of around 2 million tonnes per annum (mtpa). Additionally, the company bagged Ashwathnarayana Singh (ANS) merchant mine in the mine auction by Karnataka. While LMC and KM mines have already commenced operations, HGR and KLD are scheduled to start mining in FY2023. The captive mines were acquired at a weighted average premium of 105%. Nevertheless, the company's beneficiation and pellet plants would help to attain good profitability as low-grade iron ore would be taken as input and the higher-grade iron ore output from the beneficiation plant would be directly fed to the pellet plant. Also, the pellet realisations and spread between iron ore fines and pellet prices have remained healthy during the last two and half years and are expected to remain favourable in the near to medium term. While these captive mines are likely to provide an assured supply of raw material for the pellet division, timely operationalisation of these mines before the lease expiry of VIOM would be crucial.

Sizeable wind mill capacities – MSPL has sizeable a wind energy generation capacity of 127.8 MW through wind assets in Maharashtra, Gujarat and Karnataka. The energy generation from these assets is sold to the corresponding state discoms and provides steady earnings.

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.

Established track record of Baldota Group in iron ore mining industry – MSPL operates one of the largest private sector mines in the Bellary district of Karnataka named VIOM, with adequate reserves of good-quality iron ore. ICRA takes comfort from the considerable experience of the promoters in the mining sector.

Credit challenges

Significant capex plan and sizeable repayment obligations – The company has capex plan of Rs. 525 crore towards the development of the new captive mines, along with the setting up of associated beneficiation plants and wind project in FY2022. Out of this, Rs. 251 crore has already been incurred till September 30, 2021. The large capex exposes the company to project execution risks. Also, given Rs. 218 crore would be funded by debt, it would increase the repayment obligations going forward. The repayment obligation in FY2022 is Rs. 163.1 crore, which would increase to Rs. 198.3 crore in FY2023 and Rs. 215.3 crore in FY2024. ICRA notes that in case the company embarks upon another round of large debt-funded capex, the same would strain its debt protection metrics and would remain a key credit monitorable.

Risks arising from operating in a highly regulated iron ore mining industry; margins exposed to volatile iron ore prices – MSPL'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 captive mine operations of JSW Steel Limited could limit any further upside to iron ore prices in the medium term.

High auction premia to adversely impact performance of mining business from FY2024 – Post the expiry of the VIOM mining lease in November 2022, ICRA expects the mining profits to decline significantly from FY2024 onwards as the average auction premia for the new mining leases are over 100%. Nonetheless, value unlocking through beneficiation of low-grade iron ore fines from these mines to iron ore pellet would support the profitability of the pellet division.

Sizeable contingent liabilities – MSPL had contingent liabilities of Rs. 1,586 crore as on March 31, 2021 including corporate guarantee of Rs. 545.1 crore extended for the loans availed by the shipping subsidiary. ICRA notes that a large part of the balance liabilities (Rs. 683.2 crore as on March 31, 2021) is towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

Liquidity position: Strong

MSPL's 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. Its 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 MSPL's ratings if the company demonstrates substantial increase in its scale of operations driven by ramp-up of the newly-owned captive mines, while maintaining healthy operating margins, moderate working capital intensity and a conservative capital structure.

Negative factors – Negative pressure on MSPL'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

MSPL Limited is the flagship company of the Karnataka-based Baldota Group. It was promoted by the Late A. H. Baldota in 1962. The company is managed by Mr. Narendrakumar Baldota and his two sons. The Group has footprints in diverse businesses such as iron and steel, renewable energy, shipping and logistics, and industrial gases. MSPL operates one of the largest private sector mines in Bellary district, Karnataka, the Vyasankere Iron Ore Mine (VIOM). Spread across 348 Ha, VIOM is a fully-mechanised open-cast mine that commenced operation in 1962. It also has an iron pellet manufacturing capacity of 1.2 mtpa and an installed wind power generation capacity of 127.8 MW with wind assets in Maharashtra, Gujarat and Karnataka. MSPL is an ISO 9001:2000, ISO 14001:1996 and OHSAS 18001:1999 (by Occupational Health and Safety Assessment Series) certified company.

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 Sep 30, 2021	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				Dec 2, 2021	Mar 5, 2021	Oct 5, 2020	Sep 6, 2019	Mar 15, 2019	Oct 22, 2018	
1	Term Loans	LT	418.0	234.8	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2	Cash Credit	LT	330.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
3	Non-fund based	ST	400.0	-	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4	Unallocated	LT	172.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
5	Standby letter of credit	LT	430.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[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
Cash Credit	Simple
Non-fund based	Very Simple
Unallocated	NA
Standby letter of credit	Very Simple

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	FY2013	-	FY2030	418.0	[ICRA]A+ (Stable)
NA	Cash Credit	-	-	-	330.0	[ICRA]A+ (Stable)
NA	Non-fund based	-	-	-	400.0	[ICRA]A1+
NA	Unallocated	-	-	-	172.0	[ICRA]A+ (Stable)
NA	Standby letter of credit				430.0	[ICRA]A+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aaress 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

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For more information, visit www.icra.in

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Branches



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