February 23, 2023

Ramgad Minerals and Mining Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	106.09	100.00	[ICRA]A+ (Stable); reaffirmed
Short -Term - Non fund-based	120.0	110.00	[ICRA]A1+; reaffirmed
Unallocated	23.91	40.00	[ICRA]A+ (Stable); reaffirmed
Total	**250.0**	**250.0**	

^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+), collectively referred to as 'The Group' 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 which has been repaid in full during the year.

The reaffirmation of the ratings factors the established track record of the Baldota Group, spanning over six decades in the iron ore mining industry and the diversity in the Group's revenue streams with operations spread across iron ore mining, pellet production, renewable energy sales and shipping businesses. The ratings continue to factor in the stable cash flows generated from its merchant wind power generation plants (capacity of 127.8 MW in MSPL and 67.75 MW in RMML) and improvement in performance of the shipping business in FY2022, which has helped significantly reduce the overall borrowing levels. That said, ICRA notes that the performance of the shipping business has remained volatile, and the performance in the current fiscal is expected to weaken sequentially, with the current spot charter rates hovering close to the break-even levels necessary for debt servicing. The rating also considers the expiration of the mining lease of the Vyasankara Iron Ore Mine (VIOM, having a peak rated capacity of 1.8 million tonne per annum) in November 2022, which accounted for a significant share of earnings for the Group and also supplied iron ore for its pellet operations. ICRA notes that while MSPL has bagged five iron ore mines having a cumulative peak rated capacity of around 2.1 million tonne per annum (mtpa) through auctions, partly mitigating risks associated with timely raw material availability, however, the high revenue share/ premia and inferior quality of reserves makes them less attractive compared to VIOM. In addition, with three out of the five mines of MSPL yet to start operations, the company might have to source costlier iron ore from the external market till the time all the mines are able to ramp-up to their peak production levels.

The ratings, however, continue to factor in the absence of revenue share in RMML's 0.5 mtpa iron ore mine operating under the erstwhile allotment regime, and its residual validity till February 2026, which is expected to support healthy earnings for the next three years. In addition, the Group's profitability is also supported by value-enrichment through forward integration into beneficiation/ pelletisation facilities, and the gradually increasing share of renewable power supporting its pellet operations, which enhances the cost-competitiveness. The ratings also derive comfort from the Group's sizeable free cash & liquid investment balance of around Rs. 1,603 crore[1] outstanding as on December 31, 2022, resulting in a strong liquidity profile. ICRA believes that this is likely to limit external borrowing dependence and cushion the group's credit metrics despite the large debt-funded capex plans.

[1] Arrived at by applying appropriate haircuts on the gross unencumbered liquidity of Rs. 2,568 crore

The ratings, however, are constrained by the significant capital expenditure plan accumulating to ~Rs. 2,058 crore at a consolidated level for the upcoming pellet plant[2], which is expected to increase the consolidated leverage and expose the Group to execution risks. ICRA further notes that the Baldota Group has signed an MoU with the Karnataka Government to set up a 3.5-mtpa integrated steel plant. While foray into the steel business remains at a very nascent stage at present, the timeline for its execution and funding pattern will remain a key monitorable from the credit perspective. The ratings also 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, which makes margins volatile. ICRA also takes cognisance of MSPL's sizeable contingent liabilities, primarily towards disputed tax claims, which if crystallised, could adversely impact its liquidity profile. The ratings are also tempered by RMML's investments in an air-separation unit and the Kappatagudda gold mine, accumulating to Rs. 206 crore, which have not generated any returns so far.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the Group's leverage metrics will continue to remain at comfortable levels over the near to medium term, supported by calibrated growth plans and healthy profits from the pellet and renewable energy businesses.

Key rating drivers and their description

Credit strengths

Established track record of Baldota Group in metals and mining industry – The Baldota Group is one of the largest private sector iron ore mining companies in Karnataka, having operated the VIOM mine (lease expired in November 2022) under MSPL, and the Iyli Gurunath iron ore mine under RMML with mining lease validity till February 2026. ICRA takes comfort from the considerable experience of the promoters in the mining sector.

Captive mines partly mitigating risks associated with timely raw material availability for pellet plant; RMML's profitability continues to remain healthy by virtue of operating under the allotment regime – MSPL 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 mtpa. Additionally, the company bagged the Ashwathnarayana Singh (ANS) merchant mine in the auction conducted in 2019. While LMC and ANS has already commenced operations, KM, HGR and KLD are scheduled to start mining in FY2024. While these captive/merchant mines are likely to provide an assured supply of raw material for the pellet division, timely operationalisation of these mines would be crucial due to expiration of the lease for VIOM. RMML's cost of production from the Iyli Gurunath iron ore mine remains competitive, supported by its significantly lower revenue share with the state government compared to the 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.

Profitability supported by value-enrichment through pelletisation facilities, and a gradually increasing share of low-cost green power – Anticipating the expiry of the VIOM mining lease, and the aggressive bidding in winning iron ore mines through auctions, MSPL has been focussing on enriching the product mix through forward integration into beneficiation and pelletisation facilities. While MSPL's average Fe grade for the newly won iron ore mines has been in the range of ~55%, the Group's beneficiation plant allows it to enrich the Fe content to ~63%. This leads to sizeable cost-savings over the market price of similar grade iron ore, thereby enhancing the cost-competitiveness of the pellet operations. Additionally, the Group has made arrangements for sourcing 30 MW of renewable energy capacity (18 MW of windmill in MSPL and 12 MW of solar plant in group captive) which would meet 80-90% of the energy requirement of the pellet plant, leading to significant power cost saving over the medium term.

Merchant renewable energy business provides a steady stream of earnings – MSPL and RMML have sizeable wind energy generation capacity of 127.8 MW and 67.75 MW respectively through wind assets in Maharashtra, Gujarat, Karnataka and Rajasthan. The energy generation from these assets is sold to the corresponding state discoms and provides steady earnings.

[2] Including upstream beneficiation capacity, operationalisation of the captive mines and development of supportive infrastructure

That said, the plant load factors (PLFs) are influenced by variability in wind speed, seasonality in generation, and grid availability. In addition, the weak health of the state discoms exposes the company to counterparty risk associated with timely realisation of dues.

Healthy investments being maintained is likely to limit external borrowing dependence and cushion the credit metrics despite the large debt funded capex plans – The Group's consolidated liquidity position is strong supported by unencumbered cash & liquid investments of ~Rs. 1,603 crore[3] as on December 31, 2022 comprising fixed deposits, free cash, listed equity shares/debentures/GSecs, and mutual funds. In addition, the Group has additional unlisted investments amounting to ~Rs. 610 crore, bulk of it being in equity shares of the National Stock Exchange.

Significant deleveraging achieved in the shipping business supported by an increase in charter rates in FY2022; however, performance remains volatile, and current charter rates are now close to the break-even levels necessary for meeting debt service obligations – MDPL's operating income (OI) more than doubled to Rs. 247 crore in FY2022 against Rs. 104 crore in FY2021. This was due to a sharp rise in charter rates, with the average charter rates increasing to $22,744 per day in FY2022 from $8,766 per day in FY2021. Consequently, MDPL could not only meet both its scheduled principal and interest-servicing obligations in FY2022 from its own cash flows, but also prepaid loans during the year (MDPL's total debt stood at around $31 million as on December 31, 2022 against $58.7 million as on March 31, 2021). However, in FY2023, the charter rates started to decline with average charter rates till December 2022 recorded at around $19,000 per day, and the prevailing spot charter rates of around $15,000 per day in Q4 FY2023 is close to the breakeven levels for meeting the entities' scheduled debt service commitments. Given the lumpy principal repayment obligations of $18 million in FY2024, the company is evaluating the option to either refinance the loan or prepay it entirely through a one-time funding support from MSPL.

Credit challenges

Significant debt-funded capex plans to increase the consolidated leverage and expose the Group to execution risks - The pellet business, which currently has a capacity of around 1.2 mtpa, is planned to be increased to around 4 mtpa (~2.8 mtpa incremental capacity addition) by H1 FY2025. The overall expected capital cost for the pellet capacity expansion stands at around Rs 2,058 crore (including contingencies and provisions). The capex also includes development of KM, HGR and KLD captive mines, support infrastructure including downhill pipe conveyor, a 1.5 mtpa beneficiation plant and an iron ore grinding unit supporting the upcoming pellet plant. The project debt is expected to be around Rs 1338 crore, and the balance Rs 720 crore will be funded from internal accruals. ICRA understands that MSPL has received an in-principal sanction through a consortium arrangement with SBI (being the lead banker), and the funding tie-ups with other consortium banks are yet to be finalised. The large capex exposes the company to project execution risks. Also, given the debt-funded nature of the project, it would increase the repayment obligations going forward.

High auction premia along with inferior grade of iron ore reserves in the newly acquired leases to lead to moderate profits from the mining business going forward – The four captive and one merchant mine acquired by MSPL through auctions were at a premium averaging around 105%, which would entail sizeable revenue-share with the state government, thereby adversely impacting the cost competitiveness of the mining business. In addition, the moderate grade of iron ore reserves (~55% Fe) for the newly acquired mines is expected to generate modest profits from the mining business going forward.

Risks arising from operating in a highly regulated iron ore mining industry; margins exposed to volatile iron ore prices – The Group is vulnerable to the fluctuations in domestic iron ore prices, given its linkages with the inherently cyclical steel sector, which is its only end-user industry. Additionally, the Group operates in a highly regulated iron ore mining industry, which exposes it to regulatory risks. In FY2023, there have been multiple policy changes, which impacted the iron ore miners in Karnataka, including lifting of the export ban by the Supreme Court, imposition and reversal of export duties, and discontinuation of auctions conducted by the Monitoring Committee.

[3] Arrived at by applying appropriate haircuts on the gross unencumbered liquidity of Rs. 2,568 crore

Sizeable contingent liabilities in MSPL - MSPL had contingent liabilities accumulating to Rs. 1,567 crore as on March 31, 2022, which includes a corporate guarantee of Rs. 461.1 crore extended for the loans availed by the shipping subsidiary. ICRA notes that a large part of the balance liabilities (Rs. 753.5 crore as on March 31, 2022) is towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

Large capex incurred by RMML in the past yet to generate any returns; besides sizeable investment towards the gold mine has also been written off – RMML had incurred capital expenditure of Rs. 136 crore towards purchase of a 700-TPD air separation unit for production of oxygen to cater to the requirements of the steel industry. 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, 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.

Liquidity position: Strong

The Group's consolidated liquidity position is expected to remain **strong** over the next 12-18 months, supported by sizeable, unencumbered cash and liquid investment balances and a consistent track record of healthy free cash flow generation. Its consolidated cash accruals in FY2023 and FY2024 are likely to remain higher than its equity contribution towards the proposed capex and consolidated debt repayment obligations (Rs. 197 crore in FY2023 and Rs. 178 crore in FY2024), which makes ICRA believe that the Group is poised to remain net debt negative in FY2023 and FY2024. This lends additional comfort to its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's ratings if it demonstrates substantial increase in its scale of operations driven by timely stabilisation and ramp up of the upcoming pellet capacity within budgeted time and expenditure, while maintaining healthy operating profit margins, comfortable liquidity, and a conservative capital structure/ leverage metrics.

Negative factors – Negative pressure on the Group's ratings could arise if any cost overruns in ongoing capex or any unexpected major debt-funded capex/acquisition leads to a significant deterioration in its debt protection metrics. Specific metrics which can exert pressure on the ratings includes consolidated net debt-to-operating profit remaining above 1.5 times 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 Rating Methodology for Ferrous Metal Entities 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, 2022, the company had three subsidiaries that are enlisted in Annexure-2.

About the MSPL Group

MSPL Limited

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 operated one of the largest private sector mines in Bellary district, Karnataka, the Vyasanakere Iron Ore Mine (VIOM; lease expired in November 2022). 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.

Ramgad Minerals and Mining Limited

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 held a mining lease for three iron ore mines in Bellary district, of which only one (0.5 mtpa Iyli Gurunath iron ore mine) 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.

MSPL Maritime Pte Limited

MSPL Maritime Pte Limited (MMPL) is a wholly-owned subsidiary of MSPL and functions purely as a holding company for its subsidiary MSPL Diamonds Pte Limited (MDPL), which owns and operates four post-Panamax vessels of 92500 deadweight tonnage (DWT) for voyages carrying bulk cargoes primarily in the Pacific Ocean.

Aaress Iron and Steel Limited

Aaress Iron and Steel Limited (AISL) was incorporated in December 2005 to install a 1-mtpa integrated steel plant including a captive power plant at Koppal, Karnataka. It is a wholly-owned subsidiary of MSPL, and has no meaningful operations at present. The company had obtained a 10-year lease rights (with an option to purchase the lease land after the lease period) to the extent of 922 acres from the Karnataka Industrial Areas Development Board (KIADB). The company has further acquired land to the extent of 98 acres, through the Government of Karnataka and directly from landowners, for its future expansion.

P. Venganna Setty and Bros

P. Venganna Setty and Bros is a partnership firm set up in 1952 by its promoters, Mr. P. G. Nagbhushan and family. MSPL Limited acquired a 90% stake in the concern in 1980, while the remaining 10% was retained by the erstwhile promoters. PVS holds a mining lease for the Pathikonda Iron Ore Mine (PIOM), a 'Category-B' open-cast mine in the Bellary district of Karnataka. The mining lease for PIOM has expired in March 2020. The firm also owns wind assets totalling 14.8 MW in Karnataka and Gujarat.

Key financial indicators (MSPL Consolidated + RMML)

Consolidated financials*	FY2021 (Audited)	FY2022 (Audited)
Operating income	1,651.6	2,227.2
PAT	437.4	839.9
OPBDIT/OI	48.5%	55.7%
PAT/OI	26.5%	37.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.3
Total debt/OPBDITA (times)	1.2	0.7
Interest coverage (times)	12.0	24.1
Net Debt/OPBDITA (times)	0.3	-0.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidated by ICRA using MSPL consolidated and RMML standalone financials*

Key financial indicators (RMML Standalone)

Consolidated financials (Ind AS)	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (P)
Operating income	171.8	255.8	126.3
PAT	80.9	89.5	49.8
OPBDIT/OI	60.7%	55.9%	44.9%
PAT/OI	47.1%	35.0%	39.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.2
Total debt/OPBDITA (times)	1.1	0.7	1.3
Interest coverage (times)	17.2	18.1	10.9

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

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 (Rs. crore) as on Dec 31, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 23, 2023	Dec 2, 2021	Mar 5, 2021	Jan 31, 2020
1	Term Loans	LT	100.0	97.01	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	LT	-	-	-	-	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)
3	Non fund-based	ST	110.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2
4	Unallocated	LT	40.0		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]BBB+ (Stable)

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

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017	-	FY2027	100.0	[ICRA]A+ (Stable)
NA	Non-fund based	-	-	-	110.0	[ICRA]A1+
NA	Unallocated	-	-	-	40.0	[ICRA]A+ (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.

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.

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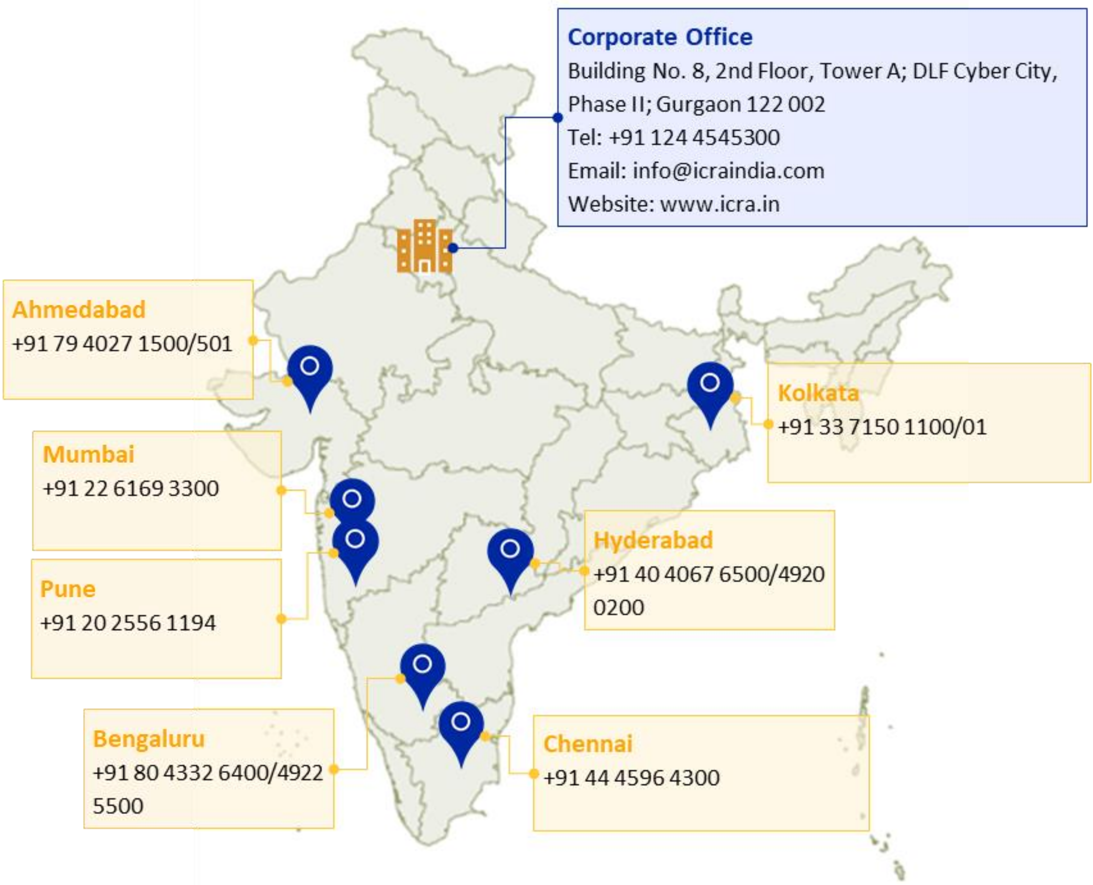

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