

July 31, 2023

## Brahmani River Pellets Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Term loan	100.00	200.00	[ICRA]A(Stable); reaffirmed/assigned
Long Term - Fund Based Cash Credit	250.00	250.00	[ICRA]A(Stable); reaffirmed
Long Term – Non-fund Based Limits	280.00	280.00	[ICRA]A(Stable); reaffirmed
Long Term – Interchangeable	(250.00)^	(250.00)^	[ICRA]A(Stable); reaffirmed
<b>Total</b>	<b>630.00</b>	<b>730.00</b>	

\*Instrument details are provided in Annexure-1; ^Sub-limit of long-term fund-based facility

### Rationale

The rating factors in Brahman River Pellets Limited's (BRPL) status as one of the largest merchant pellet manufacturers in India with a capacity of 4.7 million tonnes per annum (mtpa) for the beneficiation plant and a capacity of 4 mtpa for the pellet plant. The rating considers the favourable operating profile of BRPL with the presence of a 230-km long slurry pipeline, which connects its beneficiation plant in the iron-ore rich Barbil region to its pellet plant at Jajpur in Odisha, resulting in significant freight cost savings. The company also enjoys location-specific advantages due to the proximity of its beneficiation plant to iron ore mines and that of the pellet plant to steel mills and ports. BRPL is a joint venture (JV) among JSW Techno Projects Management Limited (JTPML; 49% shareholding in BRPL), Thriveni Pellets Private Limited (TPPL; 49%) and Mitsun Steel Private Limited (MSPL; 2%) and benefits from the extensive experience of the Thriveni Group in the iron ore mining business and that of the JSW Group in the steel sector.

Despite the imposition of a 45% duty in May 2022, which made pellet exports unviable, BRPL continued to sell its entire output to the shareholders in FY2023, in accordance with the terms of the pellet offtake agreement (POA). Herein, the shareholders purchase pellet from BRPL by paying a fixed margin of Rs. 350 per metric tonne (MT) over and above the cost of production (cost of production also includes the finance cost). In the first two months of FY2024, the company's production and sales volumes were impacted due to unfavourable contribution level and maintenance shutdown of the plant. However, from June 2023, the contribution level has improved, led by a reduction in the price of raw material, i.e., iron ore fines. The sales volumes are expected to increase in the coming months, which will adequately support the company's performance going forward. BRPL's financial profile remains comfortable, given the limited dependence on debt (aided by its healthy net worth position) and owing to the fixed contribution it receives, as per POA. BRPL's liquidity position remains strong, supported by unencumbered cash and bank balance of Rs. 153 crore as on June 30, 2023 and largely unutilised bank lines of Rs. 250 crore (with adequate drawing power).

While BRPL receives a fixed margin of Rs. 350 per MT over and above the cost of production, this constrains its return on capital employed (ROCE). However, ICRA notes that the company is insulated from any adverse price fluctuation, mitigating any downside risk. BRPL has large capital expenditure (capex) plans of Rs. 130-140 crore in FY2024 (largely debt-funded) mainly towards upgradation of the beneficiation plant and other maintenance capex. In FY2025, the capex is estimated at around Rs. 100 crore (expected to be largely funded by internal accruals/liquid balances) towards maintenance and other small projects. The rating also considers BRPL's exposure to risks associated with the availability of iron ore. However, ICRA notes that BRPL's competitive advantages over other iron ore consumers due to low transportation cost and long-term linkage with Odisha Mining Corporation Limited mitigate these risks to some extent. BRPL's pellet offtake and cash flows also remain exposed to the cyclicity in the steel sector.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectation that BRPL's financial profile would remain healthy, supported by the expected volume uptick in the coming months and committed fixed margin.

## Key rating drivers and their description

### Credit strengths

**Favourable operating profile; one of the largest merchant pellet manufacturers in India** – BRPL operates a 4.7-mtpa beneficiation plant at Barbil (Odisha) and a 4-mtpa pellet plant at Jajpur (Odisha). The beneficiation plant is strategically located at Tanto, Barbil, which is surrounded by iron ore mines. BRPL procures iron ore fines from mines located within a radius of 25 km. The beneficiation and pellet plants are connected by a 230-km long underground slurry pipeline, which reduces the freight costs significantly. The pellet plant is located at Kalinganagar Industrial Complex, which is the steel hub of eastern India and is located close to the east coast of India, which facilitates both export and coastal shipping of pellets. Paradeep Port is 125 km away, Dhamra Port is 135 km away and Gopalpur Port is 257 km away from the pellet plant.

BRPL is one of the largest merchant pellet manufacturers in India. In FY2023, despite the imposition of export duty on pellets during May-November 2022, BRPL reported sales volumes of around 3.2 million tonnes (mt) with healthy capacity utilisation level of ~80% (which was largely in line with the previous fiscal). BRPL has a healthy export presence as exports account for over 60% of total sales volumes each fiscal (through its shareholders). BRPL contributed 16% to India's overall pellet export volumes in FY2023.

**Comfortable financial profile** – BRPL's financial profile remains comfortable, given the limited dependence on debt (aided by its healthy net worth position) and owing to fixed contribution of Rs. 350 per MT it receives as per POA. The coverage indicators remained robust, as reflected in total debt-to-operating profit ratio of 0.4 times as on March 31, 2023 (Previous year [P.Y.] – 0.6 times) and interest cover of 15.7 times in FY2023 (P.Y. – 17.6 times). The adjusted total outside liabilities-to-tangible net worth ratio<sup>1</sup> (adjusted TOL/TNW) stands comfortable at 0.2 times as on March 31, 2023 (P.Y. – 0.2 times). The company continues to maintain its cash surplus position, supported by huge unencumbered liquid balances. Despite large debt-funded capex in FY2024, BRPL's overall financial profile is expected to remain healthy, going forward, aided by its committed fixed margin.

**Extensive experience of shareholders** – BRPL is a JV among JTPML, TPPL and MSPL. While the JSW Group is one of the largest steel producers in India, the Thriveni Group has extensive experience in mining operations in Odisha.

### Credit challenges

**Modest return on capital employed; large capex plans** – BRPL was acquired by JTPML, TPPL and MSPL in February 2018. These shareholders purchase pellets from BRPL under the POA, wherein they pay a fixed margin of Rs. 350 per MT over and above the cost of production (cost of production also includes the finance cost). BRPL reported revenues of Rs. 2,599 crore in FY2023 with an operating profit margin (OPM) of 4.8%. Given the fixed margin under the POA, BRPL's capital return indicators remain modest in the single digit.

BRPL has large capex plans of Rs. 130-140 crore in FY2024 (largely debt-funded) mainly towards upgradation of the beneficiation plant and maintenance. In FY2025, the capex is estimated at around Rs. 100 crore (expected to be largely funded from internal accruals/liquid balances) towards maintenance and other small projects.

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<sup>1</sup> Adjusted TOL/TNW ratio excludes offshore liabilities of Rs. 370.5 crore as on March 31, 2023 (P.Y. Rs. 341.6 crore). The said amount was received from erstwhile related party and is assigned to the shareholders (in their shareholding ratio). The shareholders have entered into shareholders debt agreement which provides for conversion of the offshore debt into equity on RBI approval. As on date, RBI approval is in process.

**Exposure to risks associated with availability and prices of iron ore** – BRPL procures iron ore fines from mines in Barbil and has competitive advantages over other iron ore consumers in the region due to low transportation cost. The company’s annual fines requirement is close to 5 mt at 100% utilisation level. While a large part of this would be procured from nearby mines in the Barbil region including Odisha Mining Corporation Limited, any major disruption in supply of iron ore fines in the Barbil region would remain a key credit monitorable as the benefits of slurry pipeline remain contingent on the company’s ability to secure raw material supply from Barbil. The company also remains exposed to risks associated with iron ore prices. In the first two months of FY2024, BRPL’s production and sales volumes were impacted due to unfavorable contribution level owing to high prices of iron ore fines in Odisha. However, ICRA notes that the contribution level has improved from June 2023 owing to a reduction in the price of iron ore fines and the sales volumes are expected to pick up in the coming months.

**Exposure to cyclicality in steel sector** - Iron ore pellet is used as an input in steel manufacturing process. BRPL, like other pellet manufacturers, is exposed to the cyclicality inherent in the steel sector. A prolonged downturn in the steel industry could put pressure on BRPL’s capacity utilisation levels and impact its cash flows.

## Liquidity position: Strong

BRPL’s liquidity position is **strong**, supported by the largely unutilised fund-based limits of Rs. 250 crore (with adequate drawing power) and unencumbered cash and liquid investments of around Rs. 153 crore as on June 30, 2023. The company had outstanding term loans of Rs. 49.5 crore as on March 31, 2023, out of which Rs. 22.2 crore is falling due for repayment each in FY2024 and FY2025. In FY2024, the company will be incurring capex of Rs. 110 crore (funded by maximum debt of Rs. 100 crore) towards upgradation of the beneficiation plant. In addition to this, the company has an annual maintenance capex of around Rs. 20-30 crore, to be incurred in FY2024. The company has a capex plan of Rs. 100 crore in FY2025 (towards routine capex and small projects), which is expected to be funded from internal accruals/liquid balances.

## Rating sensitivities

**Positive factors** – BRPL’s rating could be upgraded if there is a substantial improvement in sales volumes and profitability, while maintaining a healthy credit profile and liquidity position.

**Negative factors** – Pressure on BRPL’s rating could arise in case of any weakening in cash flows due to a downward revision in the profit cap or any large cash outflow to its shareholders, adversely impacting the liquidity position. Specific trigger, which may lead to a rating downgrade, includes total debt-to-operating profit ratio remaining above 1.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Ferrous Metals Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

BRPL was incorporated in 2006 by Stemcor India Private Limited (SIPL), a wholly-owned subsidiary of the Stemcor Group, UK. The company was later transferred to Aryan Mining and Trading Corporation Private Limited (Aryan Mining). BRPL has a 4.7-mtpa iron ore beneficiation plant in Barbil, Odisha and a 4-mtpa pellet plant at Kalinganagar Industrial Complex in Jajpur, Odisha. The two units are connected via a 230-km slurry pipeline to transport iron ore concentrate from the beneficiation plant to the pellet plant.

BRPL started commercial production in June 2013. However, in FY2016 and FY2017, weak pellet demand and a drop in realisation resulted in losses. On December 15, 2017, TPPL, a 51% subsidiary of Thriveni Earthmovers Private Limited (TEPL), JTPML, a JSW Group company and MSPL signed a binding shareholders' agreement to acquire BRPL in the ratio of 49:49:2, respectively from Aryan Mining. The company was taken over on February 23, 2018, by the current shareholders with TPPL having the management control.

### Key financial indicators – Audited

Standalone financials	FY2022	FY2023
Operating Income (Rs. crore)	3,030.0	2,599.2
PAT (Rs. crore)	77.2	26.2
OPBDIT/OI (%)	5.9%	4.8%
PAT/OI (%)	2.5%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)^	0.5	0.5
Total Debt/OPBDIT (times)	0.6	0.4
Interest Coverage (times)	17.6	15.7

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

All ratios as per ICRA's calculations;

^Total outside liabilities includes offshore liabilities

### Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Jul 31, 2023	Jan 04, 2023	Jun 27, 2022	May 17, 2021
1 Fund Based Term Loan	Long-term	200.00	49.5*	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
2 Fund Based Cash Credit	Long-Term	250.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
3 Non-fund Based Limits	Long-Term	280.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
4 Interchangeable Limits	Long-Term	(250.00)^	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-

^Sub-limit of fund-based facility, \*As on March 31, 2023

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based Term Loan	Simple
Long Term - Fund Based Cash Credit	Simple
Long Term - Non-fund Based	Very Simple
Long Term - Interchangeable	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: [Click Here](#)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	<b>Term Loan I</b>	FY2021	9-10%	FY2026	100.00	[ICRA]A(Stable)
NA	<b>Term Loan II</b>	FY2023	9-10%	FY2029	100.00	[ICRA]A(Stable)
NA	<b>Cash Credit</b>	-	-	-	250.00	[ICRA]A(Stable)
NA	<b>Non-fund Based</b>	-	-	-	280.00	[ICRA]A(Stable)
NA	<b>Interchangeable</b>				(250.00)^	[ICRA]A(Stable)

**Source:** Company; ^Sub-limit of fund-based facility

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

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

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