October 27, 2023

Technoblast Mining Corporation: Ratings upgraded to [ICRA]BBB+(Stable)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	20.00	20.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB (Stable)
Long term/short term-non fund based	40.00	40.00	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Technoblast Mining Corporation (TMC) and TMC Mineral Resources Private Limited (referred to as the Group) because both the entities are in the similar line of business and are run by the common management.

The ratings action primarily factors in ICRA's expectation of a healthy performance of the Group in FY2024, after a material improvement in FY2023, on account of higher execution of existing as well as new orders The order book remains strong, which provides revenue and cash flow visibility in the medium term. The operating margin is also expected to remain healthy at 24-25% in FY2024, in line with the previous fiscal. The liquidity of the Group remained adequate with cash and equivalents of close to Rs. 94 crore as on March 31, 2023 and sufficient cushion in non-fund based limits. With healthy accruals, the liquidity position is expected to remain adequate in the near term.

ICRA has considered the company's Rs. 200-250 crore capital expenditure plans over the next 3-4 years towards mine development in the new mines acquired through the bidding process. It will be under revenue sharing arrangement with the respective clients. Given the healthy cash accruals, the company would comfortably be able to fund the equity portion through its internal accruals and the balance through long-term debt. Also, the same would be incurred primarily from FY2026 in a phased manner. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable in the near-to-medium term. In addition, post expansion of new mines, the company would have the benefit from increased scale and better margins, thus strengthening its overall operating profile.

The ratings continue to positively factor in the Group's established track record in the contract mining and mine development and operation (MDO) business, with a reputed clientele including Ambuja Cements Limited, RCCPL Private Limited and Godawari Power & Ispat Limited, Ultratech Cements and Sarda Energy & Minerals. Further, there has been a diversification in the order book with new orders from South Eastern Coalfields. The presence of diesel and labour price escalation clause in major contracts protects the margins to a large extent.

The ratings, however, continue to be constrained by the Group's exposure to moderate client concentration risk as orders from top five clients constituted around 83% of the total revenue in FY2023. Additionally, it faces high geographical concentration risk as the major portion of its revenue is derived from only two states, viz. Chhattisgarh and Madhya Pradesh. The ratings are also constrained by the tender-based nature of the contract mining business and execution challenges because of the regulatory hurdles associated with mining, as well as potential law and order issues in the mining regions. ICRA notes that although the entire responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the firm's revenue if the projects get delayed. While assigning the ratings, ICRA has considered the risks associated with TMC for being a partnership firm, including the possibility of withdrawal of capital, the risk of dissolution of the firm upon death and retirement or insolvency of the partners.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from healthy order book execution and operating margins, which would support the Group's operating profits and credit metrics.

Key rating drivers and their description

Credit strengths

Strong increase in scale and profits in FY2023; healthy order book provides medium-term revenue visibility – In FY2023, the Group's total revenue rose significantly to Rs. 419 crore from Rs. 295 crore in FY2022 on account of receipt of healthy orders and timely execution of the same. Consequently, it supported the operating profits as well as debt coverage indicators with an interest coverage and Total Debt/OPBDITA of 10.57 times and 0.80 times, respectively in FY2023 compared to 9.82 times and 0.81 times, respectively in FY2022. Healthy order book of the Group provides revenue visibility in the medium term. This along with new bids in the pipeline and acquisition of two iron ore blocks and one coal block from Mahanadi Coalfields are likely to further support the revenue visibility.

Established track record of promoters and management in mining industry – The promoters have been in the business of contract mining since 1998 and has successfully executed many projects in the past for Ambuja Cements Limited, Hindalco Industries Limited, Steel Authority of India Limited, RCCPL Private Limited., Usha Martin Limited, among others.

Reputed clientele mitigates counterparty credit risk – The counterparty credit risk is mitigated to a large extent as the clients of the Group include reputed companies with strong financials and parentage.

Limited exposure to fluctuations in prices of diesel and labour due to price escalation clause in contracts – The principal cost drivers are diesel and labour charges. The in-built clause for price escalation in fuel and labour in all its major contracts helps protect its profit margins to an extent. The risk is further mitigated as new orders are availed on a present value basis model.

Credit challenges

Significant project concentration risks – The Group's exposure to geographical concentration risk is high as the major portion of its revenue is derived from Chhattisgarh and Madhya Pradesh. Even the new orders and bids won are in the same geography.

Large capex underway – The Group will undertake large capital expenditure of Rs. 200-250 crore over the next 3-4 years towards mine development in the new mines acquired through the bidding process. However, given the healthy cash accruals, the company would comfortably be able to fund the equity portion through its internal accruals and the balance through long-term debt. Also, the same would be incurred primarily from FY2026 in a phased manner. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable in the near-to-medium term.

Operations and mining contracts are exposed to regulatory risks – Mining operations remain exposed to regulatory risks, which can lead to potential closure in case of violation of statutory norms. Moreover, the mining belts are prone to law-and-order problems, which may result in unforeseen delays in project execution. ICRA notes that while entire responsibility of getting regulatory clearances lies with the mining leaseholder, but it may impact the Group's revenue if the project is delayed.

Risks associated with a partnership firm – Given TMC's constitution as a partnership firm, it is exposed to the possibility of capital withdrawal, dissolution of the firm upon death, retirement or insolvency of the proprietor.

Liquidity position: Adequate

The Group reported cash and liquid investments of close to Rs. 93 crore as of March 2023. Moreover, there is an expectation of healthy annual cash flow from operations of ~Rs. 68 crore, going forward, which would be sufficient to cover its debt repayments in addition to the fixed assets. The capex funding would be done through equity (35-40%) and the balance through term loan. Thus, liquidity is expected to remain comfortable in the medium term.

Rating sensitivities

Positive factors – Significant scaling up of operations and diversification of the client base while maintaining healthy profitability and liquidity position could result in ratings upgrade.

Negative factors – Pressure on the ratings may arise if there are any significant delays in project execution, leading to a decline in its scale, operating profitability or a deterioration in its liquidity position. Also, any significant execution challenge in the new mining projects under revenue-sharing arrangements, leading to large time and cost escalation, could result in negative ratings action. Specific credit metrics include TOL/TNW of more than 1.5 times on a sustained basis**.**

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	None
Consolidation/Standalone	Consolidated; ICRA has taken a consolidated view of TMC and TMC Mineral Resources Pvt. Ltd.

About the company

The Group is promoted by Mr. Atul Dwivedi and his wife, Mrs. Shweta Dwivedi. TMC was incorporated in 2006 as a partnership firm. The Group specialises in MDO, wherein extraction is done based on a plan specifying reserves available in mines. It is involved in undertaking complete underground and open-cast mining projects starting from pre-mining activities, development of mining infrastructure, mining (including mobilising labour, scientific survey, exploration, extraction, crushing, etc.) and its transportation to the clients' stockyard. However, in case of pre-mining activities such as land acquisition, forest clearance and other statutory clearances, TMC acts as a facilitator between the respective Government authorities and its clients such as Ambuja Cements Limited, Birla Corporation Limited, Godawari Power & Ispat Limited etc.

Key financial indicators (Consolidated^)

	FY2021	FY2022	FY2023
Operating income	198.49	295.98	419.43
PAT	21.48	31.85	54.50
OPBDIT/OI	24.54%	21.15%	24.03%
PAT/OI	10.82%	10.76%	12.99%
Total outside liabilities/Tangible net worth (times)	2.03	1.54	1.28
Total debt/OPBDIT (times)	0.86	0.81	0.80
Interest coverage (times)	9.41	9.82	10.57

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ^consolidated financials; consolidation done by ICRA on best effort basis

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. crore)	Amount Outstanding as of Mar 31,2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					October 27, 2023	September 26, 2022	August 05,2021	July 09,2020
1	Fund Based	Long term	20.0		[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Non Fund Based	Long term/Short term	40.0		[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB(Stable)/[ICRA]A3+	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based	Simple
Long term/short term non fund based	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 analysing 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, are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund based**	-	-	-	20.0	[ICRA]BBB+ (Stable)
NA	**Long term/short term non fund based**	-	-	-	40.0	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	TMC Ownership	Consolidation Approach
TMC Mineral Resources Private Limited	-	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal
+91 124 4545 380
prerna.aggarwal1@icraindia.com

Rishin Devnath
+91 8240058424
rishin.devnath@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches