November 22, 2023

TMC Mineral Resources Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2; ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Fund based Cash credit	10.00	[ICRA]BBB+(Stable); assigned
Long-term /Short term - Non-fund based - others	30.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Long-term /Short-term -Unallocated	10.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

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

The rating action primarily factors in ICRA's expectations 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 three to four 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, the order book has diversified 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 the 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. ICRA also considers the risks of capital withdrawal in the Group entity - Technoblast Mining Corporation for being a partnership firm. However, there has been no capital withdrawal in last two fiscal. In case of TMRPL, no dividend has been paid out, which provides comfort.

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 (TMC Mineral – Rs. 247 and TMC – Rs. 192 crore)[1] from Rs. 295 crore (TMC Mineral – Rs. 155 and TMC – Rs. 181 crore)[2] 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 in both TMC (Rs. 1829 crore as on July 31, 2023) and TMRPL (Rs. 4194 crore as on July 31, 2023) 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 in TMRPL 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 have successfully executed many projects in the past for Ambuja Cements Limited, Hindalco Industries Limited, Steel Authority of India Limited, RCCPL Private Limited., and 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 three to four 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 of capital withdrawal – While there have been no instances of capital withdrawal in the last two years in the Group entity Technoblast Mining Corporation, being a partnership firm, it remains exposed to the possibility of capital withdrawal. In case of TMRPL, no dividend has been paid out, which provides comfort. Further, the Group's net-worth has improved to Rs. 142.0 crore in FY2023 from Rs. 87.5 crore in FY2022.

[1] It includes inter-company sales

[2] It includes inter-company sales

Liquidity position: Adequate

The Group reported cash and liquid investments was close to Rs. 93 crore in 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 – Any 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 escalations, could result in negative ratings action. A specific credit metric for a downgrade is if TOL/TNW is 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 and TMC Mineral was incorporated as private limited company in 2009. 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 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
					November 22,2023	-	-	-
1	Cash Credit	Long term	10.00	-	[ICRA]BBB+(Stable)	-	-	-
2	Non Fund based - others	Long term/Short term	30.00	-	[ICRA]BBB+(Stable) /[ICRA]A2	-	-	-
3	Unallocated	Long term/Short term	10.00	-	[ICRA]BBB+(Stable) /[ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT-Fund based Cash Credit	Simple
LT/ST -Non Fund based -others	Very Simple
LT/ST-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 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	**LT-Fund based Cash Credit**	-	-	-	10.00	[ICRA]BBB+(Stable)
NA	**LT/ST -Non Fund based -others**	-	-	-	30.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	**LT/ST-Unallocated**	-	-	-	10.00	[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	Ownership	Consolidation Approach
Technoblast Mining Corporation	-	Full Consolidation

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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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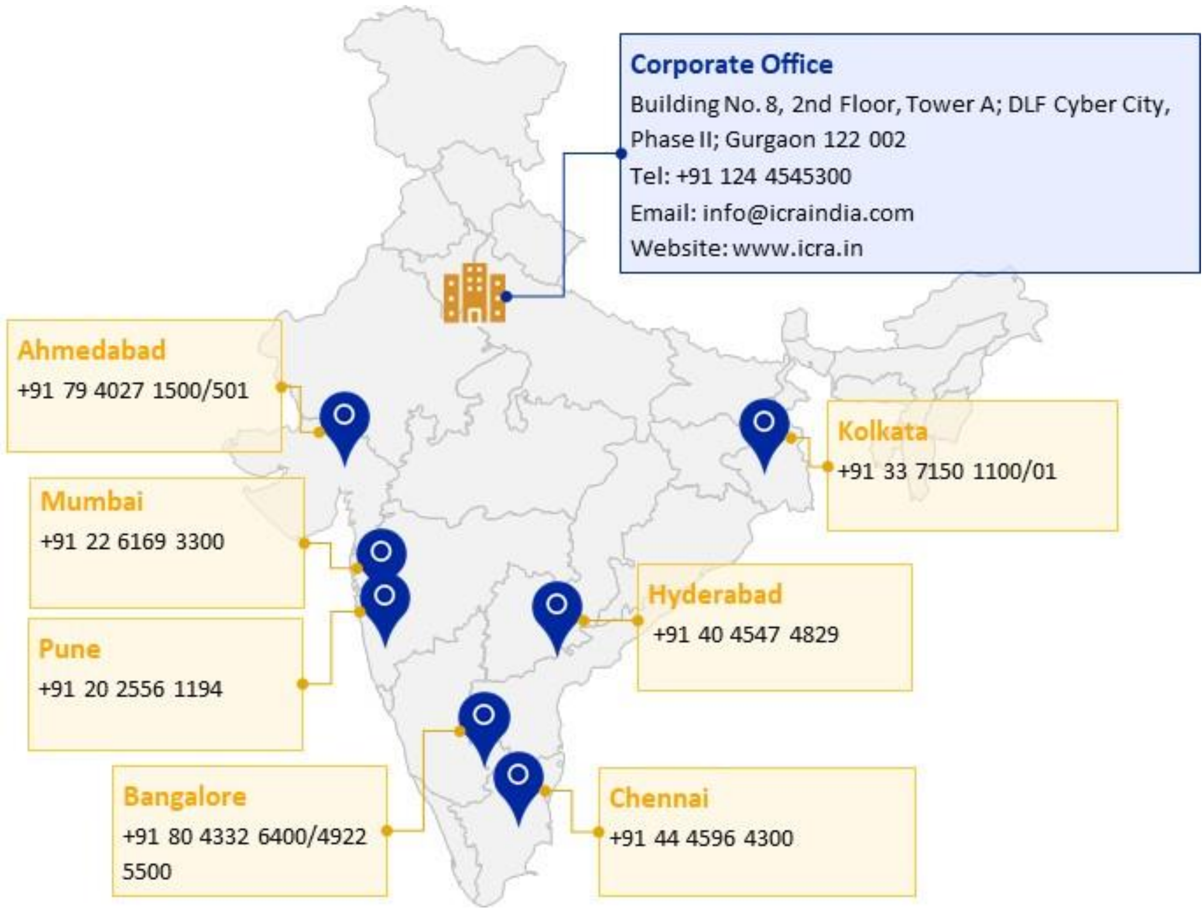

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