February 12, 2024

Rai Bahadur Seth Shreeram Narsingdas Private Limited: Ratings reaffirmed; outlook revised to Positive; 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 loans	2.75	1.50	[ICRA]BBB+; reaffirmed and outlook revised to Positive from Stable
Long term - Fund based - Cash credit	60.00	60.00	[ICRA]BBB+; reaffirmed and outlook revised to Positive from Stable
Short term – Non-fund based limits - Bank guarantee	10.00	200.00	[ICRA]A2; reaffirmed/assigned
Long term/Short term - Unallocated limits	17.85	0.00	-
Short term- Demand loan	15.40	0.00	-
Total	**106.00**	**261.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision of the outlook to Positive for Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN) factors in the company's expected improvement in earnings in FY2024/ FY2025, following a subdued period. This improvement is supported by an increase in its mining capacity for sub-grade iron ore by 5 lakh tonne per annum (LTPA), access to a land parcel for mining 1.5 million tonnes (mt) of ~63% Fe high-grade iron ore, and significant scale-up of operations of the beneficiation plant. The expected recovery is on the back of a muted performance in FY2023, where revenue witnessed a 37% decline to Rs. 256 crore due to the prevailing uncertain operating environment associated with multiple policy changes during the fiscal year and a moderation in market realisation for iron ore. However, early signs of recovery were visible in 9M FY2024 (provisional), with revenue reaching Rs. 365 crore and operating margins touching 22% (against 12.8% in FY2023). This improvement was supported by healthier realisations from the export orders, following the favourable outcome from the Hon'ble Supreme Court, higher despatches of iron ore and better asset sweating of the beneficiation facility (67% in 7M FY2024 against 46% in FY2023). The ratings further factor in the promoter's demonstrated experience of over three decades in the mining industry, enabling them to manage the operations efficiently. ICRA notes that RBSSN has been venturing into different lines of businesses over the years to diversify its revenue streams, with wind power sales and the stone-crushing division. However, in terms of revenue share, the mining-related business continues to remain the primary contributor, with more than 85% of the total revenue. The ratings also factor in the company's comfortable capital structure, characterised by minimal external term debt, leading to low leverage with total outside leverage by tangible net worth (TOL/TNW) and healthy coverage indicators of 0.2 times and 5.6 times, respectively in FY2023 (0.3 times and 19.4 times in FY2022, respectively). Additionally, RBSSN maintains a healthy cash and liquid investment balance of ~Rs. 155 crore as on December 31, 2023, which has grown from Rs. 109 crore as on March 31, 2023, supported by healthy earnings during the first nine months of FY2024.

The ratings, however, remain constrained by RBSSN's exposure to the cyclicality in iron ore prices and to the risks arising from operating in the highly regulated iron ore mining industry. The ratings also consider the company's working capital-intensive nature of operations, stemming from its large inventory levels. ICRA notes that the company invested Rs. 48.8 crore as on March 31, 2023, in its subsidiary, RBSSN Overseas PTE (RBOP), to explore the mining opportunities in Southeast Asia. However, the project has been currently put on hold due to regulatory restrictions, which constrain the overall business return indicators. In addition, RBSSN is in the nascent stage of a large capital expansion, accumulating to Rs. 400-450 crore (to be funded with a mix of external debt and equity/internal accruals) for the development of a 0.8 million tonne per annum (mtpa) pellet plant and the associated infrastructure, including the recently acquired iron ore mine in Karnataka. This investment is intended to meet the captive requirements of the downstream pellet plant. ICRA notes that the company has not undertaken such a large capex in the past, and as a result, it would be exposed to project execution and funding risks in the interim construction period. In addition, while the investments carry the potential to increase the overall earnings after commissioning, the additional borrowing dependence of ~Rs. 200 crore to partly fund the capex is expected to weaken the leverage indicators over the near to medium term. Timely commissioning and stabilization of operations of these facilities, while maintaining healthy capital structure and credit indicators would be a monitorable from the credit perspective.

Key rating drivers and their description

Credit strengths

Significant increase in earnings expected in FY2024/FY2025, supported by increase in mining capacity for sub-grade iron ore, access to mine area containing high-grade iron ore reserves, and an increase in asset sweating for beneficiation plant – In FY2024, RBSSN obtained additional environment clearance for handling 5 lakh mt of sub-grade iron ore in its existing mine. In addition, the company received necessary clearances to access a mine in a disputed overlapping land parcel containing 63% Fe high-grade iron ore. Such factors, coupled with the resumption of export sales which fetches better realisations, are expected to increase the mining profits in FY2024/ FY2025. In the beneficiation division, the production levels were modest in FY2023 due to some technical challenges in the plant and the uncertainty of the operating environment. With the resolution of the plant's teething issues (including automation of the production process) and healthy demand in FY2024, the capacity utilisation levels are expected to improve to more than 70% as against 46% in FY2023. The full-year benefits from the three developments are expected to flow in FY2025, further improving the earnings for RBSSN in the next fiscal year.

Extensive experience of the promoters in iron ore mining and beneficiation business – Incorporated in 1951 as a partnership firm, RBSSN has been involved in iron ore mining for more than seven decades. The company's mines fall under category-A with medium-grade iron ore deposits. It also has a beneficiation plant adjacent to its mines, resulting in a competitive operating cost along with partially captive power sources in the form of windmills, with a total capacity of 23.2 MW.

Comfortable capital structure and coverage indicators; some moderation expected going forward due to planned capex – The company's total debt reduced to Rs. 71 crore as on March 31, 2023, from Rs. 79 crore as on March 31, 2023. The debt profile includes term loans of Rs. 1.3 crore, working capital borrowings of Rs. 50 crore, unsecured loans from promoter of Rs. 6.8 crore and loans against FDs of Rs. 13 crore. The capital structure remained comfortable with TOL/TNW of 0.3 times, similar to FY2022, on the back of repayment of term loans. However, the interest coverage ratio moderated to 5.6 times in FY2023 from 19.4 times in FY2022, as the earnings declined steeply in the previous fiscal year. The company's interest coverage tends to remain volatile due to the variability in earnings from the mining operations owing to the industry's cyclical nature. ICRA notes that after the planned capital expenditure of the pellet plant, which will be partially funded by debt, the capital structure as well as the coverage indicators will witness moderation over the near to medium term, and is expected to gradually improve once the new plant is stabilised and commensurate earnings start to flow in.

Comfortable liquidity position supported by healthy earnings – RBSSN has cash and liquid investments amounting to Rs. 155 crore as on December 31, 2023, which keeps the company's liquidity profile at adequate levels. RBSSN's external debt is primarily characterised by working capital borrowings with minimal external debt on its balance, providing a degree of comfort due to minimal scheduled repayment obligations. However, the large and planned capex could adversely impact the company's liquidity profile in the near to medium term as a sizeable part of the liquidity would get deployed in the ongoing capex.

Diversified revenue mix, however, mining-related business contribute to majority of revenue – RBSSN has three revenue streams, which are mining-related business (mining and beneficiation), wind power generation and stone quarry, including a crushing unit. At present, RBSSN has a 0.74 mtpa iron ore mine and a beneficiation plant located inside its mining area, with its present approved beneficiation capacity of 1.0 mtpa (nameplate capacity of 5.0 mtpa). RBSSN procures iron ore fines and lumps, the raw material for the beneficiation plant, from its own mines as well as other miners. For the wind power generation, the company has 23.2 MW of capacity spread across Karnataka, Tamil Nadu and Gujarat. The stone quarry and crushing unit are located in Andhra Pradesh. The mining-related business tends to contribute to a majority of RBSSN's revenue. In FY2023, the share of mining and beneficiation contributed to 87% of the revenue and the same has increased to 95% for the first seven months in FY2024. With the expected healthy growth in this segment, its share is anticipated to remain high over the medium term.

Credit challenges

Planned large capital deployment towards forward integration which would expose the company to execution and funding risks – The company is setting up a pellet plant of 0.8 mtpa under its sister concern, RBSSN Ferrous Industries Pvt Ltd, (which is expected to be converted into a subsidiary of RBSSN Pvt Ltd) which has a land bank of 450 acres. The pellet plant will require around 25 acres of land to set up, with the balance being reserved for expansion into the steel business at a later stage. In addition to the pellet plant, the company is also setting up a railway siding for material handling, a 220-kilovolt amperes (KVA) substation (11 KVA required for the pellet plant) and a 15 MW solar power capacity. The total capex will be in the range of Rs. 400-450 crore, which will be funded 1:1 equity-to-debt ratio. The management's targeted commissioning date for the plant is June 2025. The plant's iron ore requirement will be partly catered by the recently acquired K K Kaval mine, (average Fe content of 55% and auction premium of 80.6%) which is 200 km from the plant and the balance requirement will be met through the open market. Minimal capex of Rs. 20-30 crore will be required for the K K Kaval mine, as it was already operational when the company won its bid and its expenditure timeline will be aligned with the commissioning of the pellet plant. With the earnings stream from the Sankalapuram scheduled to expire in June 2026, it is crucial to timely commission and stabilise the upcoming unit within the budgeted time and costs, and achievement of commensurate earnings from the new project would be crucial from the credit perspective.

Exposure to cyclicality of iron ore price and regulatory risks with operations in the mining sector – RBSSN is vulnerable to fluctuations in domestic iron ore prices, given its linkages with the cyclical steel sector, which is its only end-user industry. Additionally, RBSSN operates within the highly regulated iron ore mining industry, exposing it to regulatory risks. The business navigated through multiple regulatory policy changes in FY2023, including the favourable impact of lifting the export ban on Karnataka iron ore miners by the Hon'ble Supreme Court. Additionally, it managed disruptions following the upward revision of export duties on iron ore in May 2022 and subsequent rollback in November 2022, as well as the discontinuation of auctions conducted by the Monitoring Committee impacted. In the past, the mining output for RBSSN was restricted to 2.43 lakh tonnes per annum (lakh TPA) in FY2022 as per the consent of operation (COF) issued by the Karnataka State Pollution Control Board. However, this was enhanced when approval for mining an additional 5 lakh TPA of sub-grade ore was allowed in August 2023. Any unfavourable change in the government's mining policy may impact its revenue growth and profitability.

Working capital intensive nature of operations – The company's operations remain working capital intensive, as reflected by the net working capital-to-operating income (NWC/OI) of 65.4% in FY2023. This is mainly due to high inventory days (200 days in FY2023), which included a large stock of low-grade and sub-grade iron ore. ICRA notes that the working capital intensity is expected to reduce in future due to the additional environment clearance for handling 5 lakh mt of sub-grade iron ore, which RBSSN received in August 2023, as well as the credit period provided by iron ore miners after the dissolution of the Monitoring Committee in Karnataka in FY2023.

Sizeable investment in the overseas subsidiary without any commensurate increase in earnings impacts business return indicators – RBSSN's investment in RBOP, its Singapore-based subsidiary, remained at a similar level of Rs. 48.80 crore as on March 31, 2023. The investment was towards exploring mining opportunities in Southeast Asia, but the project has been put on hold due to regulatory restrictions, which somewhat constrains the overall business return indicators. ICRA understands that the major portion of investments in RBOP has been parked as fixed deposits/current accounts (of $ 6.9 million and SGD 13,484 as on March 31, 2023) with banks in Singapore. As on date, the company has opted to scrap the planned project. However, it plans to retain the funds in that entity for investment in some other opportunity at a later date.

Liquidity position: Adequate

RBSSN has cash and liquid investments amounting to Rs. 155 crore as on December 31, 2023, which keeps the company's liquidity profile at comfortable levels. RBSSN's external debt is primarily characterised by working capital borrowings, with minimal external term debt on its balance. This provides a degree of comfort due to minimal scheduled repayment obligations. However, the planned and large capex is expected to somewhat temper the liquidity in the near to medium term, leading ICRA to assess the liquidity as adequate.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a sustained improvement in earnings and profitability metrics.

Negative factors – Pressure on the ratings could arise in case of any sharp reduction in revenues and profitability of the company. The ratings could also be downgraded if company is unable to timely commission the pellet plant or in case of any additional large debt-funded capex / investment, resulting in a deterioration in the liquidity profile of the company or if the total debt to operating profit ratio remains above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology – Power Wind
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statements of the issuer

About the company

RBSSN was established as a partnership firm in 1951 and its corporate status was changed to a private limited company in 2015. RBSSN is primarily involved in iron ore mining and beneficiation activities (1 mtpa beneficiation plant). The company has two mines located in Karnataka (a 0.74 mtpa operating mine with the lease expiring in June 2026, and a 0.54 mtpa new mine that is under development and has been won through auction). The company's beneficiation plant is located adjacent to the operating mine. The wind power generation units are located across Karnataka, Tamil Nadu and Gujarat with a generation capacity of 23.2 MW. In FY2017, the company initiated its plan to produce manufactured sand (m-sand) and plastering sand (p-sand) by setting up a stone quarry and a crushing plant at Anantpur in Andhra Pradesh. The stone quarry operations commenced in October 2019. RBSSN also has a Singapore-based subsidiary, RBSSN Overseas Pte Limited, however, it is a non-operational entity.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	406.4	255.5
PAT	69.0	22.0
OPBDIT/OI	25.1%	12.8%
PAT/OI	17.0%	8.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.8	2.2
Interest coverage (times)	19.4	5.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 12, 2024	Nov 24, 2022	Sep 20, 2021	Oct 30, 2020
1	Term loans	Long term	1.50	1.50	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Cash credit	Long term	60.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	Bank guarantee	Short term	200.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+
4	Unallocated	Long term and short term	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3+
5	Demand loan	Short term	-	-	-	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based - Term loans	Simple
Long term - Fund based - Cash credit	Simple
Short term – Non-fund based limits - Bank guarantee	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	FY2016	NA	FY2025	1.50	[ICRA]BBB+ (Positive)
NA	**Cash credit**	NA	NA	NA	60.00	[ICRA]BBB+ (Positive)
NA	**Bank guarantees**	NA	NA	NA	200.00	[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 – Not Applicable

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