December 05, 2024

RBSSN Ferrous Industries Private Limited: [ICRA]BBB- (Stable)/ [ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term/ Short term - Unallocated	250.00	[ICRA]BBB- (Stable)/[ICRA]A3; assigned
Total	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to RBSSN Ferrous Industries Private Limited (RFIPL) factors in the strategic forward integration benefits arising from its planned investment in a 1-million-tonne-per-annum (mtpa) pellet plant, supported by a 1.1-mtpa beneficiation plant and a 15-MW captive solar power plant. While the execution is at an early stage, once completed, these projects will benefit from Rai Bahadur Seth Shreeram Narsingdas Private Limited's (RBSSN; parent company rated at [ICRA]BBB+ (Positive)/ [ICRA]A2) extensive experience in the mining industry and its operational synergies with RBSSN's iron ore mines located close to RFIPL's manufacturing facilities. This proximity ensures timely access to raw materials, reduces logistics costs and enhances the overall cost competitiveness, with the added advantage of a railway siding for efficient transportation of iron ore.

ICRA also believes that the capital cost of the project remains competitive, which would keep the capital charges at reasonable levels and support the net earnings across business cycles. On the operating cost front, there are the advantages of lower logistics cost from railway siding and meeting 30-40% of the ore feed from the upcoming new captive mines which are expected to be operationalised in the near term at a competitive landed cost. The project is also expected to benefit from captive power generation, which would enhance the overall cost structure and efficiency of the project. The ratings are further supported by the beneficiation plant, which enables the utilisation of cheaper low-grade ore, which is likely to enhance the conversion margins.

However, the ratings remain constrained by project-related risks as well as the timely achievement of financial closure. ICRA understands that the company is looking to commission the project by H2 FY2026. Commissioning the project within the estimated cost and timeline, and the stabilisation of operations post commissioning much ahead of the expiry of the operational Sankalapuram mine are expected to remain the key monitorables from a credit perspective. Nevertheless, ICRA takes comfort from the project's conservative financing plan with a proposed infusion of Rs. 290 crore (~55% of the total project cost) by the RBSSN Group, including an interest-free unsecured loan of Rs. 67 crore by the promoters which are subordinated to external debt. Additionally, the Rs. 75 crore spent till date on the initial project set-up has been fully funded through internal accruals, not only demonstrating the financial support from RBSSN, but also the company's conservative capital allocation policy in deploying equity first before the debt drawdown.

The ratings are also constrained by the significant debt servicing obligations over the medium to long term, which could exert pressure on the entity's cash flows, especially during the stabilisation period. Additionally, RFIPL remains exposed to the inherent cyclicality of the iron and steel industry, exposing the company to earnings volatility. Going forward, the timely commissioning of the project within budgeted costs, a successful financial closure, and the ability to achieve the expected operating parameters post commissioning will be the key rating sensitivities.

The Stable outlook on the long-term rating reflects the company's conservative capital allocation policy in financing the upcoming pellet project, its competitive capital cost and operating cost structure (aided by backward integration, access to railway siding and sourcing of captive renewable power), and the experience of the parent in the mining and beneficiation businesses, which partly mitigates the execution risks.

Key rating drivers and their description

Credit strengths

Competitive capital cost of upcoming pellet project, low project gearing, low-cost operations to increase resilience to withstand cyclical downturns – The upcoming pellet project benefits from a highly competitive capital cost, which would keep the capital charges at reasonable levels, in turn supporting the net earnings across business cycles. ICRA takes comfort from the project's conservative financing plan with a proposed infusion of Rs. 290 crore (~55% of the total project cost) by the RBSSN Group, including an interest-free unsecured loan of Rs. 67 crore by the promoters which are subordinated to the external debt. Additionally, the Rs. 75 crore spent till date on the initial project set-up has been fully funded through internal accruals, not only demonstrating the financial support from RBSSN, but also the company's conservative capital allocation policy in deploying equity first before the debt drawdown. The high share of equity in project financing ensures low project gearing, enhancing the company's resilience to withstand adverse market fluctuations.

Availability of railway siding and financial and operational linkages with RBSSN in lieu of sizeable equity component in project financing and access to iron ore from parent's operational and under-construction iron ore mines – ICRA notes that the availability of a dedicated railway siding and access to iron ore from the RBSSN's KK Kaval mine (ML-2631) in Hospet, Karnataka, is expected to ensure timely and adequate raw material supply, enhancing the cost competitiveness. The railway siding, coupled with the project's strategic location near a railway line, will enable smooth transportation of the raw materials and finished products, reducing the freight cost and transit time. The company will source iron fines from the KK Kaval mine, its existing plant, via beneficiation, and an arrangement with NMDC. Additionally, the proximity of the KK Kaval mine to the beneficiation plant will lead to logistics cost savings, further improving the operational efficiency and strengthening its competitive position.

Moreover, on the operating cost front, the project is expected to benefit from captive power generation of 15 MW, which would enhance the company's overall cost structure and efficiency. Going forward, given the strategic importance of RFIPL to the parent, ICRA expects RBSSN to provide timely need-based financial support to RFIPL during the period of project execution and stabilisation till the time the company starts generating adequate cash flows to meet its committed project debt service obligations.

Beneficiation plant to allow use of cheaper low-grade ore, resulting in attractive conversion margins – The beneficiation plant enables the use of low-grade iron ore, which is more affordable and readily available, reducing the raw material costs. By upgrading the ore grade through beneficiation, the plant is expected to achieve efficient conversion costs, resulting in attractive margins. This cost advantage to use cheaper low-grade iron ore strengthens the company's profitability and market competitiveness.

Credit challenges

Exposure to project-related risks, including risks associated with stabilisation of the plants – The project is scheduled for commissioning in September 2025, but with the mining lease of the existing Sankalapuram mine expiring in July 2026, any delays in plant stabilisation could put pressure on the consolidated entity's earnings and cash flows, and weaken the liquidity and credit metrics. ICRA notes that a majority of the project erection is still pending, leading to lack of visibility on its completion within the September 2025 deadline. Given the early stage of construction, the entity remains exposed to the risks of time/cost over-runs in the interim. A timely commissioning and stabilisation of the plant and achieving the desired operating parameters and cost efficiencies remain the key monitorables from a credit perspective.

Vulnerable to funding risk – The company plans to fund the upcoming project through equity, intercorporate loans, promoter loans, and external term loans. The parent has committed Rs. 100 crore as equity, with Rs. 37 crore infused by RBSSN as of September 2024. Further, an intercorporate loan of Rs. 123 crore from the parent and a promoter loan of Rs. 67 crore (both being understood to be interest free and subordinated to external debt) will go into project financing, with Rs. 50 crore already invested as an unsecured loan till date. An external term loan of Rs. 230 crore is awaiting final sanction, exposing the company to funding risks as well. Moreover, the large scale of the project in comparison to the consolidated entity's balance sheet size, in addition to funding risks, exposes the company to the timely availability of financial resources. However, the parent's strong on-balance sheet liquidity position of Rs. 225.81 crore, as on September 30, 2024, mitigates such risks to an extent.

Volatility in earnings and cash flows from exposure to cyclicality in iron and steel sector – As pellets are primarily used in steel manufacturing, with iron as a key raw material, RFIPL is exposed to the cyclicality of the iron and steel sector. This exposes the company to fluctuations in raw material prices, steel demand and profitability, resulting in potential volatility in earnings and cash flows.

Significant debt servicing obligations in the medium term, leading to elevated standalone leverage metrics – The entity faces significant debt servicing obligations in the medium term, which could put pressure on the cash flows, especially in a scenario of unforeseen times and cost overruns, resulting in cash flow timing mismatches and weakening of credit metrics.

Liquidity position: Adequate

The liquidity of the firm is likely to remain adequate, supported by expectation of timely fund infusion from the parent to fund the project by dipping into its cash pool. Any delay in commissioning the project from the expected timeline of September 2025, leading to cash flow timing mismatches, may adversely impact the overall financial risk profile of the entity as it has significant debt servicing obligations in the medium to long term.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to achieve an advanced stage of project completion, providing visibility on future cash flows. The rating could also witness an upward pressure if RBSSN's credit profile improves.

Negative factors – Downward pressure on the rating could arise if the company is not able to complete the project within the budgeted cost and timeline, resulting in a significant weakening of its credit profile. The rating could also come under pressure if the linkages with the parent, RBSSN, weaken, or if the credit profile of the parent deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Parent/Group Company: Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN) ICRA expects RBSSN to be willing to extend financial support to RFIPL, should there be a need, given its strategic importance to the parent, and out of its need to protect its reputation. Both RFIPL and RBSSN share the common RBSSN name, which in ICRA's opinion, would persuade RBSSN to provide financial support to RFIPL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone

About the company

RBSSN Ferrous Industries Private Limited (RFIPL), currently a subsidiary of Rai Bahadur Seth Shreeram Narsingdas Private Limited (RBSSN) as on March 31, 2024, was established on September 27, 1994. This was set up with the intent of setting up an integrated steel plant consisting of 1.0-MTPA iron ore pellet plant, 1.1-MTPA beneficiation plant and a 25-MW solar power plant (to be invested in two phases – 15-MW solar power plant in first phase and additional 10-MW solar power plant in next two phases) at Hospet, Karnataka. The company intends to become a 'Green Unit' by using power from its own solar power plant and windmill operated by the Group. It will use iron fines from RBSSN's K K Kaval mine (ML-2631, Mining Block M/s.

Srinivasulu), existing plant via beneficiation and remaining from its arrangement with NMDC. The company is also building railway siding for smooth and cost-effective transport of raw material. It has also invested in a 220-KVA substation, providing an uninterrupted and clean power supply.

Key financial indicators (audited)

RFIPL Standalone	FY2023	FY2024
Operating income	-	-
PAT	-0.1	-0.2
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	24.2	1.3
Total debt/OPBDIT (times)	-363.1	-245.4
Interest coverage (times)	-385.5	-570.0

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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Dec 05, 2024	Date	Rating	Date	Rating	Date	Rating
Long term/ Short term - Unallocated	Long term/Short term	250.00	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Unallocated	Not Applicable

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	Long term/Short term - Unallocated	NA	NA	NA	250.00	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Non 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.

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