

February 03, 2025

EICL Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term - Fund based limits	32.50	32.50	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Short-term – Fund based limits	-	20.00	[ICRA]A2; assigned
Short-term – Non fund based limits	5.00	5.00	[ICRA]A2; reaffirmed
Total	37.50	57.50	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of EICL Limited (EICL) factors in the expectation of continued steady earnings and gradual improvement in the credit metrics for EICL Limited, going forward, despite the continued impact of regulatory issues pertaining to receipt of approvals for mining operations on the company's scale of operations. EICL has recorded an increase in profitability over the past 15-18 months, aided by improvement in realisations and cost efficiency measures, helping the company record an operating profit of ~Rs. 16.5 crore and ~Rs. 9.3 crore, respectively in FY2024 and H1 FY2025, after recording losses in FY2023. Improvement in profitability, coupled with funds received from monetisation of some land parcels owned by the company, have aided in repaying a healthy portion of the company's debt outstanding (including inter-corporate deposits extended by promoters). Expectation of steady operational performance of the company's Thonnakkal plant (Kerala) is likely to help the entity maintain healthy credit metrics, going forward. The realisations are further expected to be supported by the reopening of a portion of Kochuveli plant (Kerala) in H1 FY2025, which are expected to help the company offer an improved basket of products to its customers.

The ratings continue to factor in the established market position of EICL in the domestic processed clay market, its diversified customer base across various industries and healthy financial flexibility as a part of the Karan Thapar Group. With over 50 years of developing kaolin-based hydrous and calcined solutions, EICL has enjoyed a healthy market share in the domestic clay market over the years. The company caters to a reputed client base, spanning industries as varied as paper, paint, rubber, ink, tyres, etc., of which paint and paper industries constituted ~80% of the company's revenues in H1 FY2025. Although ~64% of the company's revenue is driven by its top eight customers, many of them are market leaders in their respective sectors. EICL has been enjoying established relationships with them over the years. EICL's business profile has also remained supported by captive mines, which ensure availability of quality and cost competitive raw materials and protect from any major volatility in raw material pricing.

Despite weak operational and financial performances in the recent past due to restrictions on the company's mining operations, the ratings draw comfort from EICL's healthy financial flexibility, wherein the company received interim funding support from the promoters (preference share capital of Rs. 9.0 crore outstanding on the books of its subsidiary) to help meet its loss funding requirements and repayment obligations. The company's market position in the domestic clay processing business, strong R&D capabilities, established relationships with customers, and captive mine reserves are expected to help improve its performance once the mining approvals are received for the remaining mines. Possibility of ramp-up in operations of its subsidiary's manufacturing unit at Bhuj, Gujarat, is also expected to support the earnings to an extent.

EICL's business remains exposed to regulatory restrictions over the mining of kaolin clay. Apart from any significant change in royalty rates, this can considerably impact the availability of raw materials, affecting the company's scale of operations and

profitability. The company's financial performance had weakened considerably following an order from the High Court of Kerala to discontinue mining operations and secure environment clearance (EC) and other regulatory approvals for its existing mining sites. While resumption of mining at two mines and the consequent availability of cost competitive raw materials aided revenue growth, the operations at the company's Kochuveli plant (Kerala) remained suspended due to shortage of raw materials. The company has commenced production for a portion of the plant from August 2024. Owing to shortage of quality raw materials (in the absence of mining approval for the Veiloor mine), EICL's ability to offer niche, value-added products to its customers remains impacted to an extent, leading to reduction in capacity utilisation of the Thonnakkal plant. Aided by an improvement in capacity utilisation and subsequent increase in realisation of the products from the Thonnakkal plant, the company recovered from the operating losses made in FY2023 and has stabilised its operations in the past two years, resulting in a gradual improvement in coverage metrics. ICRA will continue to monitor the progress of the company in securing ECs for the remaining mines and resumption of operations at the Kochuveli plant, along with the impact of the same on EICL's financial and operational risk profiles. ICRA also notes that the company remains exposed to imposition of penalties from regulatory authorities with regards to environment degradation. Any imposition of material penalty, impacting the credit profile of the entity, remains a sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's revenue visibility will remain stable, supported by consistent operational performance and steady improvement in realisations. The promoters (belonging to The Karan Thapar Group) are expected to support the company, in case of any funding gap.

Key rating drivers and their description

Credit strengths

Financial flexibility for being a part of the Karan Thapar Group; experienced promoters and management team with over 30 years of business experience – EICL enjoys significant financial flexibility for being a part of the Karan Thapar Group, which has an established track record of managing diverse businesses such as industrial gear boxes, farm equipment, electric vehicles and automotive engines, among others, through companies such as Greaves Cotton Limited, Greaves Electric Mobility Private Limited and Premium Transmission Private Limited (rated [ICRA]AA-(Positive)/[ICRA]A1+). The Group had extended financial support to EICL in the form of inter-corporate deposits (ICDs) and preference shares during the crucial time, as the latter's operations were impacted by restrictions on mining. In addition to the strong promoter group, EICL's management team has extensive experience in the clay mining and processing industry, supporting its business prospects and operations.

Established player in the processed clay sector with strong client profile in paint and paper industries – EICL has extensive experience in manufacturing a variety of processed clay. It has an established customer base of direct clients as well as dealers and distributors, through which it caters to a reputed clientele across various industries, especially paper, paint and rubber.

Business profile supported by captive mining infrastructure and strong R&D capabilities – EICL sources its raw materials from captive clay mines in Kerala, which ensures availability of quality raw materials and protection from any major volatility in raw material prices. Collectively, these mines have adequate reserves for the next 15-20 years of operations at the steady state requirement of raw materials of 6 lakh tonnes p.a. The company's backward integrated operations also aid in strong pricing power and margins. Owing to lack of ECs, EICL's mining operations continue to remain suspended at some of the major mines, impacting its earnings and revenues. Apart from access to captive mines, EICL also has a strong research and development (R&D) team for continuously improving the product mix and producing value-added products.

Credit challenges

Restrictions on mining operations continue to curtail scale of operations – With its mining operations disrupted since October 2018, the company had to source raw materials from external parties at a much higher cost. As a result, EICL's earnings and debt coverage indicators were severely impacted. While mining operations are running at two mines currently, the scale of operations continues to remain modest with revenues of ~Rs. 152.1 crore in FY2024 and ~Rs. 83.1 crore in H1 FY2025. Due to shortage of quality raw materials (in the absence of mining approval for the Veiloor mine), EICL's ability to offer niche, value-

added products to its customers continues to remain impacted, leading to modest capacity utilisation of the Thonnakkal plant. Improvement in capacity utilisation and realisation of the products from the Thonnakkal plant have resulted in improvement in operating profits in FY2024 and H1 FY2025 after losses in FY2023. However, going forward, a substantial improvement in EICL's financial profile will depend on receipt of mining approvals for the remaining mines, which remains monitorable.

Exposed to regulatory risk associated with clay mining industry – EICL remains exposed to regulatory risk associated with the clay mining industry. Its mining operations were disrupted following an order from the High Court of Kerala in October 2018, which directed EICL to stop mining, pending compliance with certain conditions. Although two of the company's mines are currently operational, it is yet to receive environmental clearances (ECs) for most of its mines, which has constrained its production levels, leading to moderate scale of operations.

Liquidity position: Adequate

EICL's liquidity is expected to remain **adequate**, even as its cash flows from operations are expected to remain impacted in the near term due to restrictions on mining activities. The liquidity position is supported by buffer in working capital limits (buffer of ~Rs. 5.0 crore in the fund-based working capital limits as of September 2024 and incremental proceeds from sale of land parcels). Against this, the company does not have any external debt repayment. The company has incurred ~Rs. 6-7 crore in YTD FY2025 for restarting operations at its Kochuveli plant (Kerala) and some capex for increasing capacity at the Bhuj plant and thus, going forward, the company is only expected to incur maintenance capex. ICRA expects the company to meet its debt obligations and capex requirements from a mix of available lines of credit and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a material improvement in scale of operations besides sustained improvement in profitability, credit metrics and liquidity position. Timely receipt of approvals for reopening its mines, supported by improvement in demand and realisations will further help improve the ratings.

Negative factors – ICRA could downgrade EICL's ratings in case of any material deterioration in its financial and liquidity profiles due to further delays in securing ECs, or any cessation of operations. Any sustained impact on the company's operations or financial performance could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EICL Limited. As on March 31, 2024, the company had one subsidiary, which is enlisted in Annexure-II.

About the company

EICL mines clay (kaolin) and manufactures processed clay, which find applications in various industries, especially in the paper and paint industries. The company's manufacturing plants are in Kerala with a combined production capacity of around 2,00,000 MT annually. EICL also has a manufacturing facility in Bhuj (Gujarat) through its 100% subsidiary, Kaolin India Private Limited (KIPL), which started production from May 2021 and has a manufacturing capacity of ~42,000 MT p.a.

EICL enjoys established relationships with many of the leading paint and paper companies and derives its business strength from the availability of captive mines and regular investments in new product introduction. The company's captive mines are spread across five locations in Kerala. Following an order from the Kerala High Court, which placed certain conditions on mining, EICL's mining operations were suspended in October 2018, pending ECs. While the company had received requisite approvals for two of its mines at Thonnakkal, Kerala, ECs for the rest of its mines are awaited.

Incorporated in November 1963, the company is a part of the Karan Thapar Group, which operates diverse businesses such as industrial gear boxes, farm equipment, electric vehicles, automotive engines and clay processing, among others, through companies such as Greaves Cotton Limited, Greaves Electric Mobility Pvt. Limited (erstwhile Ampere Vehicles Private Limited), Premium Transmission Limited (rated [ICRA]AA-(Positive)/[ICRA]A1+) and EICL Limited. Karun Carpets Private Limited is the promoter company of EICL, holding a 91.7% stake in it. EICL was a listed entity till FY2014, but its shares were eventually delisted.

Key financial indicators (Audited)

EICL Consolidated	FY2023	FY2024
Operating income	122.8	152.1
PAT	(3.4)	3.7
OPBDIT/OI	-1.0%	10.8%
PAT/OI	-2.8%	2.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	(32.3)	0.9
Interest coverage (times)	(0.2)	4.1

Source: Company's annual reports, 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	Type	Amount Rated (Rs. crore)	Current rating (FY2025)				Chronology of rating history for the past 3 years					
			FY2025				FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based	Long-term/Short term	32.50	Feb 03, 2025	[ICRA]BBB+ (Stable)/[ICRA]A2	Jan 07, 2025	[ICRA]BBB+ (Stable)/[ICRA]A2	Nov 15, 2023	[ICRA]BBB+ (Stable)/[ICRA]A2	Dec 22, 2022	[ICRA]BBB+ (Negative)/[ICRA]A2	Dec 17, 2021	[ICRA]BBB+ (Negative)/[ICRA]A2
Non fund based	Short-term	5.00	Feb 03, 2025	[ICRA]A2	Jan 07, 2025	[ICRA]A2	Nov 15, 2023	[ICRA]A2	Dec 22, 2022	[ICRA]A2	Dec 17, 2021	[ICRA]A2
Fund based	Short-term	20.00	Feb 03, 2025	[ICRA]A2	-	-	-	-	-	-	-	-
Term loans	Long-term	-	-	-	-	-	-	-	Dec 22, 2022	[ICRA]BBB+ (Negative)	Dec 17, 2021	[ICRA]BBB+ (Negative)
Unallocated	Long-term / Short-term	-	-	-	-	-	-	-	Dec 22, 2022	[ICRA]BBB+ (Negative)/[ICRA]A2	Dec 17, 2021	[ICRA]BBB+ (Negative)/[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Fund based facilities	Simple
Short-term – Fund based facilities	Simple
Short term – Non fund based facilities	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	Fund based limit	NA	NA	NA	32.50	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Bill Discounting	NA	NA	NA	20.00	[ICRA]A2
NA	Non fund based limits	NA	NA	NA	5.00	[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:

Company Name	EICL Ownership	Consolidation Approach
EICL Limited	100.00% (rated entity)	Full Consolidation
Kaolin India Private Limited	100.00%	Full Consolidation

Source: EICL annual report FY2024

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