

September 04, 2019

EICL Limited: Update on Material Event; short-term rating revised to [ICRA]A1; outlook on long-term rating revised from 'stable' to 'negative'

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based-TL	2.67	2.67	[ICRA]A+ (Negative); Reaffirmed, outlook revised from Stable
Long term / Short term -Fund-Based	50.00	50.00	[ICRA]A+ (Negative); Reaffirmed, outlook revised from Stable/[ICRA]A1; downgraded from [ICRA]A1+
Short term-Non-Fund-Based	10.00	10.00	[ICRA]A1; Downgraded from [ICRA]A1+
Commercial paper	40.00	40.00	[ICRA]A1; Downgraded from [ICRA]A1+
Total	102.67	102.67	

Material Event

As per a news report dated August 27, 2019, EICL Limited (EICL) has served closure notice to its employees with effect from September 15, 2019 due to shortage of raw materials, rising operational costs, and legal and environmental issues leading to stop of mining activities at captive clay mines near the area located near Thonnakkal and Veiloor villages.

Impact of the Material Event

EICL was operating in two segments – a) Mining and processing of clay and b) processing of starch. During Q4FY2018, the company divested the starch business to focus on the margin-accretive clay business due to the presence of its captive mines. However, with concerns over non-receipt of environmental clearance certificate, clay mining has been disrupted in the last ten months leading to the company operating at less than 65% capacity utilization. Also, EICL had to depend on external raw material supplies (at higher cost) which coupled with its declining sales had impacted the earnings. EICL reported a net loss of Rs. 1.8 crore (with cash profit of Rs. 0.3 crore) on revenues of Rs. 54.5 crore during Q1 FY2020.

Rationale

Citing concerns over shortage of raw materials, rising operational costs, and legal and environmental issues leading to stop of mining activities at its clay mines, EICL has served a closure notice to its employees with effect from September 15, 2019. While the management is sanguine on getting environmental clearance certificate shortly thus resulting in resumption of mining operations and improvement in profitability, the same remains to be seen. ICRA will continue to monitor the developments in this regard.

EICL was also in the process of setting up a new clay processing plant at Cuddalore, Tamil Nadu; which was expected to be completed by December 2019 and start of operations in Q1 FY2021. However, the project has been put on hold due

to the ongoing issues at its clay operations and also over possible uncertainty over supply of raw materials on the new project. The company had spent around Rs. 24.0 crore on land and site development of the plant.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers and their description

Credit strengths

Long track record of the promoters and management team – EICL is part of the Karan Thapar Group which has long track record of managing diverse businesses such as Greaves Cotton Limited, Premium Transmission Private Limited (rated [ICRA]A+ (Stable)/[ICRA]A1) etc. EICL's management team has extensive experience in the clay mining and processing industry thereby supporting the company's business prospects. The promoters have exhibited financial support in the past, and the same can be expected as and when required by the company.

Credit challenges

Regulatory risks and uncertainty over future operations of the company – EICL remains exposed to the regulatory risk associated with clay mining industry. EICL's mining operations have been disrupted in the last ten months following an order from High court of Kerala in October 2018, which had directed EICL to stop mining near Thonnakkal and Veiloor, pending compliance with certain conditions (like securing environmental clearance) and payment of penalty. EICL has subsequently paid the penalty and has been awaiting environmental clearance from the government. In the interim, EICL's operations were affected with the company operating at less than 65% capacity utilisation and procuring raw materials externally (at higher cost) thus impacting its earnings. While the management is confident of securing the requisite clearances and resume mining operations shortly, the same remains to be seen. ICRA will continue to monitor the developments in this regard and take rating actions accordingly.

Liquidity position: Stretched

EICL's liquidity profile is stretched with increased utilization of working capital borrowings in the last three months (~88-89%). As of June 30, 2019, EICL had cash and bank balance of Rs. 16.00 crore. The company is also looking at monetizing its land at Shimoga (Karnataka) to support the liquidity profile.

Rating sensitivities

Positive triggers – Any upside in ratings is currently restricted. Timely receipt of environmental clearances will be critical for resumption of mining operations, which shall consequently reduce the dependence on external sourcing of raw material and eventually improve the earnings profile.

Negative triggers – Negative pressure on EICL's rating shall arise with continued deterioration in the financial profile due to delays in securing environmental clearances (or) any cessation of operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in 1963, EICL is part of M/s Karan Thapar Group, which has diverse business interests including Greaves Cotton Limited, Premium Transmission Limited and EICL Limited. EICL is involved in mining and processing hydrous and Kaolin clay, which finds application in paper industry, paint industry etc. DBH International Private Limited (holding company) and Karun Carpets Private Limited together hold 91.65 percent stake in EICL limited.

The company is engaged in the business of mining of clay (kaolin) and manufacturing of processed clay, starch and allied products. The company had discontinued its manufacturing operations of starch and allied products in Shimoga unit from September 2018 and Yamunanagar unit w.e.f. January 31, 2018.

In FY2019, on an audited basis, the company reported a net profit of Rs. 11.7 crore on an operating income of Rs. 273.2 crore, as compared to a net profit of Rs. 30.8 crore on an operating income of Rs. 443.6 crore in the FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	443.6	273.2
PAT (Rs. crore)	30.8	11.7
OPBDIT/OI (%)	14.9%	13.6%
RoCE (%)	19.9%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	0.3	1.2
Interest Coverage (times)	5.4	6.0
DSCR	1.7	2.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Rating Sep 04, 2019	FY2019 Aug 10, 2018	FY2018 July 13, 2017	FY2017 -
1 Fund Based-Term Loan	Long Term	2.67	NIL	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2 Fund-Based	Long Term/ Short Term	50.00	-	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-
3 Non-fund-based	Short Term	10.00	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-
4 Commercial paper	Short Term	40.00	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore:

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: 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-TL	Feb 2014	Libor+ 4.65%	December 2018	2.67	[ICRA]A+ (Negative)
NA	Long term/ Short term - Fund-Based	Feb 2014	9.00%	NA	50.00	[ICRA]A+(Negative)/ [ICRA]A1
NA	Short term-Non-Fund-Based	NA	NA	NA	10.00	[ICRA]A1
NA	Commercial paper	NA	NA	NA	40.00	[ICRA]A1

Source: Company; Note: Commercial papers has not been placed by the company

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