

March 05, 2021

## MSPL Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	215.0	215.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund Based - Cash Credit	330.0	330.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short -Term - Non Fund-based	400.0	400.0	[ICRA]A1; upgraded from [ICRA]A2+
Unallocated	150.0	150.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long -Term - Non Fund-based	655.0	655.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
<b>Total</b>	<b>1750.0</b>	<b>1750.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of MSPL Limited (MSPL), along with its subsidiaries – MSPL Maritime Pte Limited (MMPL) and its step-down subsidiary MSPL Diamond Pte Limited (MDPL) and group company Ramgad Minerals and Mining Limited (RMML; rated [ICRA]A (Stable)/A1), due to significant financial linkages between the entities, including the corporate guarantee extended by MSPL on behalf of MDPL’s borrowings and loans extended by RMML to MSPL.

The upgrade in ratings considers the higher-than-anticipated deleveraging at consolidated level following the repayment of \$30 million by MSPL, which led to a decline in MDPL’s (shipping subsidiary) debt level from \$91 million as on March 31, 2020 to \$61 million as on January 31, 2021. ICRA also takes note of the stated intent of the management to further deleverage the balance sheet through the proposed divestment of shipping assets, which would settle a large part of the outstanding debt of \$61 million in MDPL. The ratings continue to factor in MSPL’s large wind energy generation capacity of 127.8 MW spread across Karnataka, Maharashtra and Gujarat, which augment revenues and cash flows, and the established track record of the Baldota Group spanning over six decades in the iron ore mining industry. While the mining lease of Vyasnakere Iron Ore Mine (VIOM) is expiring in November 2022, ICRA notes that all the four captive mines bagged in 2016 and 2019 are likely to be operational by the end of FY2022. This would result in an assured supply of iron ore for the pellet plant over the medium-to-long term. The operationalisation of these mines in a timely manner before the lease expiry of VIOM would be critical, and thus would remain a key rating monitorable. The ratings also derive comfort from the company’s significant investments in fixed deposits and equity shares resulting in a healthy liquidity profile.

The ratings, however, continue to be constrained by MSPL’s high debt level on a consolidated basis and weak, albeit improving, operations of the shipping subsidiary. While MDPL is servicing its interest obligations at present, it will continue to rely on the funding support from MSPL for principal repayment till the time the shipping assets are sold. MSPL is planning to undertake a sizeable capex of Rs. 547 crore in FY2022, towards the development of mines won under the category-C mine auctions, setting up of associated beneficiation plants and a 17 MW windmill project in Hospet, which expose the company to project implementation risks. The ratings also factor in the highly regulated nature of the iron-ore mining industry as well as the exposure to inherent cyclicity in iron ore and pellet prices. Also, the impact of variability in wind speed and grid availability on the Plant Load Factors (PLF), and timeliness of payments from the state discoms remain important credit considerations. ICRA also takes cognisance of MSPL’s sizeable contingent liabilities, primarily towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

The 'Stable' outlook on the [ICRA]A rating reflects ICRA's opinion that MSPL will continue to benefit from its highly profitable iron ore mining business and that the demand outlook for pellets remains favourable in the near-to-medium term.

## Key rating drivers and their description

### Credit strengths

**Higher-than-anticipated deleveraging at consolidated level** – MSPL repaid \$30 million on behalf of MDPL, resulting in a decline in its debt levels from \$91 million as on March 31, 2020 to \$61 million as on January 31, 2021. The deleveraging was supported by higher-than-anticipated cash generation in MSPL, following a sharp rise in iron ore and pellet prices in the current year. MSPL reported revenues of Rs. 1,087.3 crore and operating margin of 50.0% in 10M FY2021 against revenues and operating margin Rs. 1,262.8 crore and 39.9% respectively in FY2020. Going forward, ICRA expects limited funding support from MSPL to MDPL as the proposed divestment of the shipping assets would settle a large part of the outstanding debt in MDPL, thereby resulting in further deleveraging at consolidated level.

**Captive mines to provide assured supply of iron ore for the pellet plant** – The company emerged as a preferred bidder for four category-C mines in Karnataka - Karthikeya Mines (KM) and Lakshminarayan Mining Company (LMC), which were awarded in 2016, and H. G. Rangangouda (HGR) and Kahaiyalal Dudheria (KLD), which were awarded in 2019. Additionally, the company also bagged Ashwathnarayana Singh (ANS) mine in the mine auction by the state of Karnataka. While LMC has already commenced operation, KM will start mining by the end of current fiscal as per the company management. HGR and KLD are scheduled to start mining in FY2022. The captive mines were acquired at weighted average premium of 105%. Nevertheless, the company's beneficiation and pellet plants would help it attain good profitability as low-grade iron ore would be taken as input and the higher-grade iron ore output from the beneficiation plant would be directly fed to the pellet plant. Also, the pellet realisations and spread between iron ore fines and pellet prices have remained healthy in the last two and half years and are expected to remain favourable in the near-to-medium term. While these captive mines are likely to provide an assured supply of raw material for the pellet division, timely operationalisation of these mines before the lease expiry of VIOM would be crucial.

**Sizeable wind mill capacities** - MSPL has sizeable a wind energy generation capacity of 127.8 MW through wind assets in Maharashtra, Gujarat and Karnataka. The energy generation from these assets is sold to corresponding state discoms.

**Healthy investments maintained by the company** - MSPL maintains significant investments in fixed deposits, which support its liquidity and financial flexibility. Besides unencumbered fixed deposits Rs. 325 crore as on February 20, 2021, the company had investments of Rs. 251.4 crore in quoted equity shares, which provides additional cushion to the liquidity. It is to be noted that the company also has investment in unquoted equity shares worth Rs. 235.6 crore as on December 31, 2020.

**Established track record of the Baldota Group in the iron ore mining industry** - MSPL operates one of the largest private sector mines in the Bellary district of Karnataka, the Vyasnakere Iron Ore Mine (VIOM), with adequate reserves of good-quality iron ore. ICRA takes comfort from the considerable experience of the promoters in the mining sector.

### Credit challenges

**Weak financial performance of MSPL's shipping subsidiary** - MSPL Maritime Pte Limited (MMPL) functions as a holding company for the subsidiary, MSPL Diamonds Pte Limited (MDPL), which owns and operates four post-Panamax vessels. Weak global shipping scenario resulted in MMPL registering net losses over the years, leading to weak debt protection metrics. To fund the losses and maintain timely debt servicing, MSPL has advanced funds over the years totalling to \$168 million as on January 31, 2021 (\$133 million as on March 31, 2020). During 10M FY2021, MDPL reported losses of \$7.5 million as against losses of \$12 million in FY2020. At present, while MDPL is servicing the interest on its own, supported by increase in charter rates, it is still dependent on MSPL for principal repayment. ICRA expects the incremental support from MSPL to remain limited going forward as the proceeds from the proposed divestment of shipping assets would settle a large part of the outstanding debt in MDPL.

**Significant capital expenditure plan and sizeable repayment obligations** – The company has capex plan of Rs. 547 crore towards the development of the new captive mines along with the setting up of associated beneficiation plants and wind project in FY2022. The large capex exposes the company to project execution risks. Also, given a large part (Rs. 478 crore) of this would be funded by debt, it is likely to strain the capital structure and increase the repayment obligations from FY2023 onwards.

**Risks arising from operating in the highly regulated iron ore mining industry with margins exposed to volatile iron ore prices** - MSPL’s earnings from the mining business remains volatile, as it is exposed to fluctuations in the prices of iron ore and any changes to the regulatory framework (as witnessed by the mining restriction in Karnataka and Goa in the past). Moreover, additional supply with restart of Donimalai mine by NMDC Limited in February 2021 and commencement of captive mine operations of three mines of JSW Steel Limited could limit the upside to iron ore prices in the medium term.

**Impact of variability in wind speed and grid availability on the PLFs** - The credit profile is constrained by the risks inherent to wind power generation like the seasonality in generation of wind power and timeliness of payments from state discoms.

## Liquidity position: Adequate

MSPL’s liquidity position is likely to remain adequate in FY2022 supported by unencumbered fixed deposits of Rs. 325 crore as on February 20, 2021. MSPL’s expected cash accruals from the business in FY2022 are likely to remain higher than its equity contribution of Rs. 70 crore towards capex totalling Rs. 547 crore and consolidated debt repayment obligations of Rs. 141 crore in FY2022. ICRA expects settlement of a large part of MDPL debt through divestment of shipping assets in FY2022. MSPL has sizeable investments in quoted equity shares, which amounted to Rs. 251.4 crore as on December 31, 2020 and unutilised fund-based limits of Rs. 70 crore (vis-a-vis drawing power) as on December 31, 2020, which lends additional comfort to the liquidity profile of the company.

## Rating sensitivities

**Positive factors** – A rating upgrade is unlikely in the medium term. However, ICRA could upgrade MSPL’s ratings if the company demonstrates substantial increase in its scale of operations while maintaining healthy operating margins, moderate working capital intensity and a conservative capital structure.

**Negative factors** – Negative pressure on MSPL’s rating could arise in case of any unexpected major debt-funded capex and/or if the consolidated debt-to-operating profit remains above 2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Mining Entities</a> <a href="#">Rating Methodology for Wind Power Producers</a> <a href="#">Rating Methodology for Entities in the Shipping Industry</a> <a href="#">Consolidation and Rating Approach</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MSPL Limited along with its subsidiaries and a group company. As on March 31, 2020, the company had 3 subsidiaries that are enlisted in Annexure-2.

## About the company

MSPL Limited is the flagship company of the Karnataka-based Baldota Group, and was promoted by the Late A. H. Baldota in 1962. The company is managed by Mr. Narendrakumar Baldota and his two sons. The Group has footprints in diverse businesses such as iron and steel, renewable energy, shipping and logistics, and industrial gases. MSPL operates one of the largest private sector mines in Bellary district, Karnataka, the Vyasankere Iron Ore Mine (VIOM). Spread across 348 Ha, VIOM is a fully-mechanised open-cast mine that commenced operation in 1962. MSPL also has an iron-pellet manufacturing capacity of 1.2 mtpa and an installed wind-power generation capacity of 127.8 MW with wind assets in Maharashtra, Gujarat and Karnataka. MSPL is an ISO 9001:2000, ISO 14001:1996 and OHSAS 18001:1999 (by Occupational Health and Safety Assessment Series) certified company.

In FY2020, on consolidated level, MSPL reported a profit after tax (PAT) of Rs. 289.0 crore on an operating income (OI) of Rs. 1,552.1 crore compared to a PAT of Rs. 358.6 crore on an OI of Rs. 1,579.2 crore in FY2019.

### Key financial indicators (audited)

MSPL Limited (Consolidated*)	FY2019	FY2020
Operating Income (Rs. crore)	1579.2	1552.1
PAT (Rs. crore)	358.6	289.0
OPBDIT/OI (%)	45.6%	41.7%
PAT/OI (%)	22.7%	18.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	1.8	2.2
Interest Coverage (times)	5.7	5.5

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*includes MSPL, MDPL, Aaress Iron & Steel Limited, P Venganna Setty & Bros and Ramgad Minerals and Mining Limited; Source: MSPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Jan 31, 2021	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
					Mar 5, 2021	Oct 5, 2020	Sep 6, 2019	Mar 15, 2019	Oct 22, 2018	Jan 29, 2018	Sep 19, 2017
1	Term Loans	Long Term	215.0	189.4*	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)
2	Cash Credit	Long Term	330.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)
3	Non-fund based	Short Term	400.0	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3
4	Unallocated	Long Term	150.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
5	Standby letter of credit	Long Term	655.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-	-	-

Amount in Rs. crore; \*standalone

## 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 [click here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	FY2013	-	FY2027	215.0	[ICRA]A (Stable)
NA	Cash Credit	-	-	-	330.0	[ICRA]A (Stable)
NA	Non-fund based	-	-	-	400.0	[ICRA]A1
NA	Unallocated	-	-	-	150.0	[ICRA]A (Stable)
NA	Standby letter of credit				655.0	[ICRA]A (Stable)

**Source:** Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Aaress Iron & Steel Limited	100.00%	Full Consolidation
MSPL Maritime Pte	100.00%	Full Consolidation
P Venganna Setty & Bros	90.00%	Full Consolidation
Ramgad Minerals and Mining Limited	Group company	Full Consolidation

## ANALYST CONTACTS

### **Jayanta Roy**

+91 33 2287 6617

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

### **Priyesh Ruparelia**

+91 22 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

### **Anshuman Bharati**

+91 22 6169 3351

[anshuman.bharati@icraindia.com](mailto:anshuman.bharati@icraindia.com)

## RELATIONSHIP CONTACT

### **Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### **Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### **Helpline for business queries**

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## **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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.