July 31, 2023

Essel Mining & Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1500.00	1500.00	[ICRA]A1+; Reaffirmed
Total	**1500.00**	**1500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in EMIL's status as a strategically important entity to the Aditya Birla Group, and the demonstrated funding support that the company has received from the Group over the years. EMIL, through its wholly-owned subsidiary, IGH Holdings Pvt. Ltd. (IGH), has a sizeable shareholding in multiple listed Aditya Birla Group entities. IGH's market value of such listed investments stood at around Rs.25,809 crore as on March 31, 2023, which gives EMIL high financial flexibility. Moreover, ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance derived from its sizeable equity holdings in key businesses of the Group. The rating also reflects EMIL's established presence in the coal mining business, with the company operating as a mine development and operator (MDO) for two large coal mines of Coal India Limited (Bhubaneshwari and Rajmahal mines), having a cumulative capacity of 45 million tonnes per annum (mtpa). Additionally, EMIL has a renewable energy portfolio of 150 MW, which generates stable earnings. The ratings also consider the comfortable liquidity profile of the company supported by sizeable cash/bank/liquid investment balance of around Rs.1300 crore on a consolidated basis as on March 31, 2023.

With the closure of the highly profitable iron ore mining business, which contributed over 80% of the consolidated operating profits between FY2019 and FY2022, the earnings profile of the company is expected to remain subdued over the next few years. In FY2023, the company's consolidated operating profits are estimated to have declined by around 75-80% over FY2022. EMIL stayed away from making aggressive bids in the Odisha iron ore auctions, and the company was unable to bag any iron ore mines. Subsequently it announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio. The cumulative value of investments in these greenfield mining projects currently stands at around Rs.6,000-6,500 crore (includes only moving projects)[1]of which around Rs.3500-4000 crore is towards the development of the greenfield commercial coal mining project at Bandha (PRC[2] of 7.5 mtpa), around Rs.700 crore towards the development of the Amelia coal MDO (PRC of 5.6 mtpa), and around Rs.1800 crore towards the development of the Subhadra coal MDO (PRC of 15.0 mtpa). The current capex commitment stands reduced by 40-50% from the levels of around Rs. 10000-12000 crore that ICRA had earlier factored in during the last rating exercise. The lower capex commitment is on account of the company surrendering the Radhikapur East coal block (due to challenges with land acquisition making it economically unviable), and non-acceptance of LoI for the Madannagar coal MDO project. Besides, ICRA understands that the Bunder diamond mining project remains stalled as of now due to multiple ongoing hurdles associated with R&R[3] and environmental issues.

The large investment pipeline in these greenfield mines, notwithstanding the reduction in quantum, exposes the company to execution risks. ICRA notes that execution risks get partly mitigated in the greenfield coal mining projects because of the demonstrated experience of the Aditya Birla Group in this field. Besides, the long track record of successfully managing the existing MDO assets has enabled EMIL to operationalise the Amelia coal MDO project much ahead of its schedule with coal

[1] ICRA has not factored in the execution of Bunder in its assessment as the project remains stalled as of now and clarity on execution timeline is not available.
[2] Peak rated capacity
[3] Rehabilitation and resettlement

dispatch having started from the site already from June 2023 onwards. While funding risks are alleviated somewhat due to the company's strong parentage and demonstrated track record in the mining business, EMIL's debt levels are expected to increase over the medium term as it embarks on a multi-year debt funded capex. With EMIL's earnings unlikely to improve meaningfully over the near to medium term during the project execution stage, the company's leverage indicators are expected to weaken during this project execution phase from the levels witnessed during the iron ore mining era. Moreover, over the near to medium term, EMIL's rising debt levels could also weaken the net external debt/market value of listed investment cover, which in turn would adversely impact its financial flexibility.

Key rating drivers and their description

Credit strengths

Strategically important entity of the Aditya Birla Group; demonstrated track record of financial support from the Aditya Birla Group – Over the years, EMIL has made substantial investments in the Aditya Birla Group entities through its wholly-owned subsidiary, IGH. Given the sizeable quantum of these holdings, EMIL remains a strategically important company to the Aditya Birla Group, which supports the rating.

ICRA notes that between FY2019 and FY2022, EMIL has received a cumulative Rs. 6,497-crore funding support from the Aditya Birla Group through a combination of rights issues of Rs. 4,841 crore and Compulsorily Convertible Debentures (CCDs) of Rs. 1,656 crore. These inflows have been mobilised in IGH to fund its various investment needs as well as for deleveraging. In September 2020, EMIL's Board had passed a resolution to bring in fresh CCDs worth Rs. 3,060 crore, of which the first tranche of Rs. 828 crore had been infused in October 2020, and the second tranche of Rs. 828 crore was infused end-April 2021, which were utilised for meeting the investment requirements of IGH. ICRA understands that the balance CCDs of Rs. 1,404 crore are callable as per requirement.

Established presence in the coal mining business – EMIL is one of the largest private coal miners in India, operating two coal assets as MDO, the 28-mtpa Bhubaneshwari Coal Mine in Odisha for the Mahanadi Coalfields Limited, and the 17-mtpa Rajmahal coal mine in Jharkhand for the Eastern Coalfields Limited. Barring FY2022 and FY2023, when one of the MDOs posted operating losses, due to low coal extraction on account of land unavailability, the two coal MDOs generated healthy earnings over the years and have a sizeable balance sheet liquidity of around Rs.398 crore as on March 31, 2023. Apart from EMIL, the Aditya Birla Group also has substantive coal mining expertise with Hindalco and Ultratech Cement, both operating captive coal mines.

Stable earnings from the renewable energy generation portfolio – EMIL has a renewable energy portfolio of 150 MW, having an average vintage of around nine years. These assets are generating a stable EBITDA of Rs. 106-113 crore annually. ICRA notes that EMIL's power generation assets have entirely paid off its long-term debt.

High financial flexibility and comfortable liquidity profile derived from EMIL's large investment portfolio, sizeable cash and liquid investment balance – As on March 31, 2023, the market value of IGH's equity holdings in key listed entities of the Aditya Birla Group like Hindalco Industries Limited, Grasim Industries Limited, Aditya Birla Fashion and Retail Limited, Aditya Birla Capital Limited, Century Textiles and Industries Limited and Vodafone Idea Limited stood at around Rs.25,809 crore. This imparts increased financial flexibility to EMIL, as indicated by its demonstrated ability to borrow at competitive interest rates. Apart from the company's financial flexibility, EMIL's liquidity profile is also supported by its sizeable cash and liquid investment balance of around Rs.1,300 crore outstanding on a consolidated basis as on March 31, 2023.

Credit challenges

Earnings profile to remain subdued over the next few years following the closure of the highly profitable iron ore mining business – EMIL's iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021. The company continued generating cash flows from the iron ore business for the rest of FY2022 by dispatching the mineral excavated during the lease tenure, which led to another year of healthy earnings albeit some decline on a sequential basis due to lower dispatches. With the closure of the highly profitable iron ore mining business, which contributed over 80% of the consolidated operating profits between FY2019 and FY2022, the earnings profile of the company is expected to remain subdued over the next few years. In FY2023, the company's consolidated operating profits are estimated to have declined by around 75-80%. As it embarks on rebuilding its mining portfolio, its operating profit is unlikely to witness any meaningful improvement over the near to medium term and would be largely driven by modest earnings from the renewable energy, operating coal mining MDO's, and pellet manufacturing businesses.

Exposure to significant project execution risks associated with foray in large greenfield mining projects – ICRA notes that EMIL stayed away from making aggressive bids in the Odisha iron ore auctions, and the company was unable to bag any iron ore mines, including its most profitable 6.28-mtpa Jilling iron ore block. Subsequently it has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio. The cumulative value of investments in these greenfield mining projects stands at around Rs. 6,000-6,500 crore (includes only moving projects), entirely being contributed by the coal mining projects at Bandha, Amelia and Subhadra. Such a sizeable capex plan in greenfield mines, having long gestation periods, exposes the company to execution risks. However, the Aditya Birla Group's demonstrated track record of developing and operating coal mines partly mitigates execution risks in the upcoming greenfield coal mining projects.

Due to the land acquisition-related challenges making the Radhikapur East coal block unviable, ICRA has noted that EMIL has conveyed its intent of surrendering this block to the Nominated Authority, using the same provisions given to the Government companies for surrendering unviable coal blocks. However, the Nominated Authority has opined that the one-time window scheme was meant exclusively for Government companies only. Subsequently, the company has filed a writ petition in the Delhi High Court to direct the Nominated Authority to accept the surrender of the coal block without any penalty/invocation of Bank guarantee. In the interim order published, the Delhi High Court directed that the coal mine shall be deemed to have been surrendered and further held that the bank guarantee shall be kept alive and not be invoked until further orders of the court. Although the outstanding bank guarantee amount of Rs. 133.62 crore is not material, compared to the company's balance sheet size, ICRA will continue to monitor the developments in this regard.

Limited experience in the diamond mining sector leading to uncertainty over the company's ability to generate adequate returns – At present, NMDC Limited, along with the Department of Geology & Mining, the Government of Madhya Pradesh, are the only two large entities mining diamond in India. While EMIL's Bunder mining project remains stalled as of now due to multiple ongoing hurdles associated with R&R and environmental issues, once these issues get resolved, it will be the first test case for the entry of a domestic private sector entity into this high-risk domain, leading to uncertainty over the company's ability to generate adequate returns on the invested capital. Further, Bunder's less favourable geo-mining conditions (with respect to grade and stripping ratio), its limited mine life of 12-14 years, the challenges in seeking environmental/ forest clearances, and uncertainty over the marketability of the mined diamonds make Bunder a riskier investment than the company's foray into the commercial coal mining. ICRA, however, notes that the average diamond realisations from NMDC's Panna mine, which is located in proximity to Bunder, remain higher than the leading global miners like De Beers and Alrosa, which suggests superior quality of Bunder's natural diamonds.

Leverage expected to increase over the near to medium term as the company deploys sizeable capital in rebuilding its mining portfolio – EMIL's debt levels are expected to increase over the medium term as it embarks on a multi-year debt funded capex phase, requiring a capital deployment of around Rs.6000-6500 crore (includes only moving projects). With EMIL's earnings unlikely to improve meaningfully over the near to medium term during the project execution stage, the company's leverage indicators are expected to weaken over the near to the medium term from the levels witnessed during the iron ore mining era. Moreover, over the near to medium term, EMIL's rising debt levels could also weaken the net external debt/market value of listed investment cover, which in turn would adversely impact its financial flexibility.

Liquidity position: Adequate

As on March 31, 2023, EMIL had a free cash and liquid investment balance of around Rs.1,300 crore on a consolidated basis. Moreover, as on March 31, 2023, EMIL had an equity portfolio of around Rs. 25,809 crore in various listed entities of the Aditya

Birla Group, which provides a high degree of financial flexibility. However, with the capital deployment in the greenfield mining projects expected to gather pace going forward, and EMIL's earnings profile expected to remain subdued, the company's free cash flows are expected to slip in the negative territory for a few years till the greenfield assets ramp up and start generating adequate returns. Consequently, given these sizeable capex plans, EMIL's liquidity has been assessed as **Adequate**.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on EMIL's rating could arise for the following reasons: a) Net external debt (excluding CCD)/ market value of listed equity investments exceeds 25% on a sustained basis, b) Deterioration of the company's consolidated liquidity profile due to expected retained cash flows from operating businesses, available unencumbered cash and liquid investment balance, undrawn lines of credit (working capital + tied-up project debt), and committed funding support visibility from the Group remaining inadequate to meet the scheduled debt service obligations (interest + principal) in addition to greenfield capex commitments over the near term, and c) significant execution challenges in the ongoing greenfield mining projects, leading to large time and cost-escalation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group Support	Parent: Aditya Birla Group ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance that EMIL holds through the sizeable equity holdings of IGH in key businesses of the Group.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EMIL. As on March 31, 2022, the company had five subsidiaries, two stepdown subsidiary and one associate, which are all enlisted in Annexure-2.

About the company

EMIL, a closely held entity of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. EMIL's iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021. It is one of the country's largest coal mining MDOs. In the recent 2-3 years, the company has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio.

EMIL is one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit in Gujarat and catering to the domestic special and alloy steel industries. The company also has a renewable energy generation portfolio of 150 MW, with assets spread across four states. EMIL also operates a 75-MW wind-power generation unit in Maharashtra. Additionally, the company has commissioned a solar power generation project of 25 MW under the Rajasthan State Solar Policy, and another 35 MW solar power generation project in Telangana. EMIL's 74% step-down subsidiary, Palace Solar Energy Private Limited, has a 15-MW operating solar power plant in Gujarat.

Apart from revenue-generating tangible assets, EMIL, through its wholly-owned subsidiary, IGH Holdings Pvt. Ltd., holds a sizeable investment portfolio in various Aditya Birla Group entities. The cumulative value of IGH's listed holdings as on March 31, 2023 stood at around Rs. 25,809 crore.

Key financial indicators (Audited)

EMIL	Consolidated		Standalone		
	FY2021 (Aud.)	FY2022 (Aud.)	FY2021 (Aud.)	FY2022 (Aud.)	FY2023 (Prov.)
Operating Income (Rs. crore)	5,134.7	4,795.5	4079.6	3806.2	943.2
PAT (Rs. crore)	1,567.8	1,179.5	1281.7	1282.9	142.2
OPBDIT/OI (%)	47.9%	41.1%	52.2%	42.7%	-0.2%
PAT/OI (%)	30.5%	24.6%	31.4%	33.7%	15.1%
Total Outside Liabilities/ Tangible Net Worth+ MI (times)	0.2	0.2	0.1	0.1	0.1
Total Debt/OPBDIT (times)	1.5	2.2	0.8	1.2	-836.5
Interest Coverage (times)	7.9	6.0	12.7	10.2	-0.01

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 Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Jul 31, 2023	Jul 04, 2022	May 30, 2022	May 10, 2021	-
1	Fund Based Limits	Short term	-	0.00	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	-
2	Non Fund-Based Facilities	Short term	-	0.00	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	-
3	Commercial Paper	Short term	1500.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Not placed	**Commercial Paper**	-	-	-	1500.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IGH Holdings Pvt. Ltd.	100%	Full Consolidation
Electrotherm Renewables Pvt. Ltd.	100%	Full Consolidation
Palace Solar Energy Pvt. Ltd. *(Step down subsidiary)*	74%	Full Consolidation
Rajmahal Coal Mining Ltd.	85%	Full Consolidation
Bhubaneswari Coal Mining Ltd.	74%	Full Consolidation
EMIL Mines and Mineral Resources Ltd.	100%	Full Consolidation
Amelia Coal Mining Limited *(Step down subsidiary)*	79.39%	Full Consolidation
Living Media India Ltd.	41.50%	Equity Method

Source: *Company*

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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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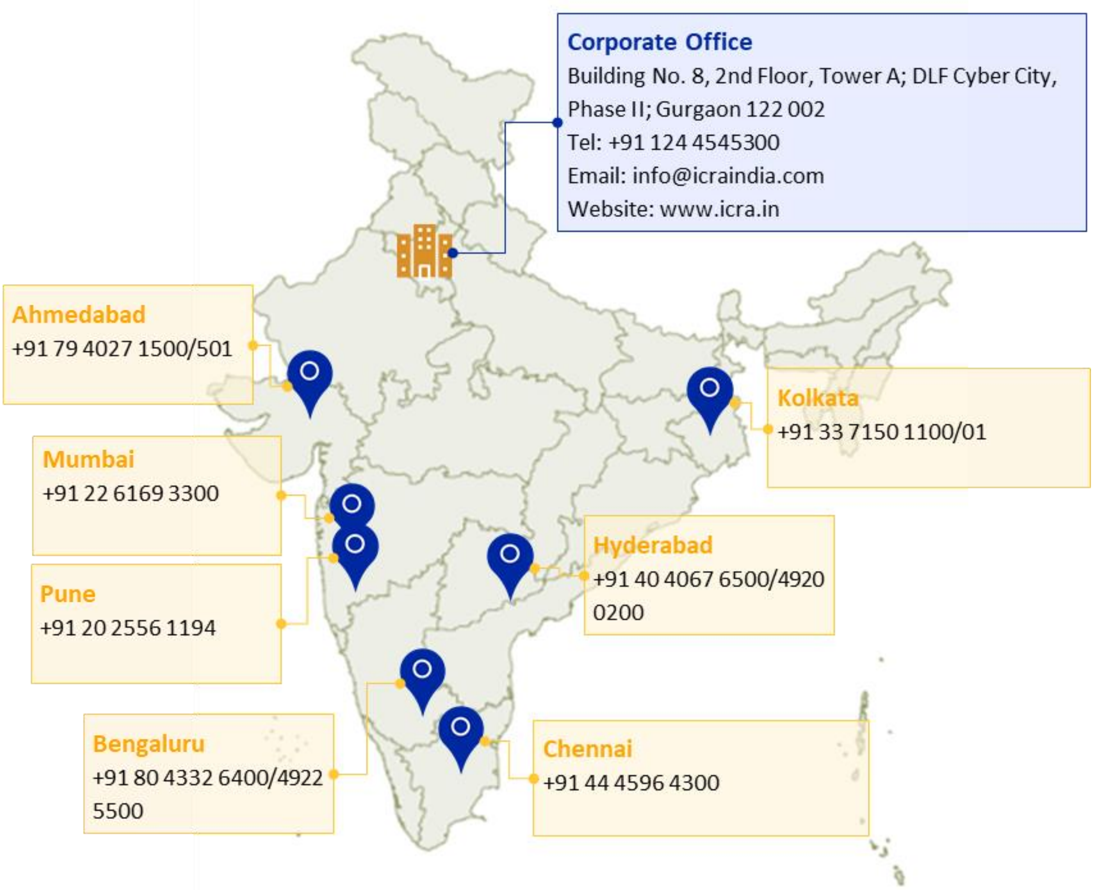

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