

September 27, 2023

IRC Natural Resources Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	1.00	1.00	[ICRA]BBB- (Stable); reaffirmed
Long-term / Short-term – Non-Fund Based – Bank Guarantee	29.00	29.00	[ICRA]BBB- (Stable) / [ICRA]A3; reaffirmed
Long-term – Unallocated Limit	6.00	6.00	[ICRA]BBB- (Stable); reaffirmed
Total	36.00	36.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to factor in the significant experience of the promoters of IRC Natural Resources Private Limited (INRPL) in the contract mining, logistics and cargo handling business and the company's track record of serving its clients satisfactorily. The presence of price variation clause in INRPL's existing cargo handling operation at the Haldia Dock Complex, which is a key business segment at present, protects the segment's profitability from adverse movement in input costs, to a large extent. The scale of operation of the cargo handling operation improved significantly in FY2023. This coupled with a significant increase in the sales volume from the clay mine positively impacted INRPL's profitability in FY2023. The ratings also consider the conservative capital structure and the comfortable debt coverage metrics of INRPL.

The ratings, however, consider a delay in ramp-up of sales volume from the back stone mining segment due to land acquisition related issues, vulnerability of the cargo handling segment to the economic cycles causing variation in export and import volumes and operational challenges associated with Haldia Dock Complex, which requires periodic dredging as it is a riverine port. The ratings are also constrained by the company's modest ROCE, given its sizeable investment in properties and financial exposure to Group companies without commensurate returns. ICRA also notes that the new long-term contract won by INRPL from Inland Waterways Authority of India (IWAI) for operating (through a subsidiary) the multimodal terminal at Haldia, West Bengal, is yet to commence due to a delay in handover of the terminal by IWAI. Nevertheless, the contract would support INRPL's consolidated revenues and cash accruals, after commencement of operation.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that healthy volumes of the cargo handling and clay mining segments are likely to keep INRPL's profits and cash accruals at a comfortable level. The company's overall credit profile is likely to remain comfortable with limited debt and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Promoter's experience in contract mining, logistics and cargo-handling business – INRPL, a part of the Kolkata-based IRC Group, has been promoted by Mr. Anil Gupta, who has a significant experience in the field of contract mining for overburden removal, blasting, site preparation etc. as well as logistics business. The company has been involved in cargo handling business from 2016. The company has a track record of satisfactorily serving its clients.

Presence of price variation clause in the cargo handling contract protects profitability in the segment – The company commenced cargo handling operation at berth number 13 of Haldia Dock Complex in 2016 and the contract is valid till 2026. The cargo handling charges factor in the price variation of the input costs (wages and fuel charges). The charges remain linked

to the benchmark indices and are revised at regular intervals. The presence of the price variation clause in the cargo handling contract protects the segment's profitability to a large extent.

New contract for operating inland waterways terminal at Haldia likely to strengthen business profile in the long term, notwithstanding a delay in commencement of operation – The company has won a long-term contract from IWAI for operating the multimodal terminal at Haldia, West Bengal, through a special-purpose vehicle (SPV) named IRC Multimodal Haldia Pvt. Ltd. (IMHPL). The contract is for ten years from the commencement of operation and is renewable for five years thereafter. INRPL has to pay a royalty of around Rs. 105 per tonne to IWAI for riverine cargo and the tariff ceiling stipulated by IWAI would remain linked to the wholesale price index. There has been a delay in commencement of the contract as the terminal is yet to be handed over by IWAI to INRPL due to the ongoing dredging operation at the terminal. However, the contract is likely to positively impact INRPL's consolidated revenues and cash flows, going forward, post commencement of operation.

Conservative capital structure and comfortable debt coverage metrics – Limited debt level vis-a-vis a healthy tangible net worth led to a conservative capital structure of the company, as reflected by a gearing within 0.2 times since FY2019. The debt coverage metrics remained comfortable and improved due to a reduction in debt and an increase in the operating profit, as reflected by an interest coverage and total debt/OPBDITA of 7.7 times and 0.6 times in FY2023 (provisional) vis-à-vis 2.5 times and 2.7 times, respectively, in FY2022. The company's DSCR remained comfortable at more than 2 times over the last two fiscals, on the back of limited debt repayment obligation.

Credit challenges

Delay in scaling up of black stone mining segment restricting revenue growth – The company has mining contracts for a clay mine and two black stone mines in Birbhum, West Bengal, from West Bengal Mineral Development and Trading Corporation Ltd. (WBMDTC). The company also won the contract for another black stone mine in Purulia, West Bengal, however, it has surrendered the same due to resistance from the local community. The operation of the clay mine commenced from January 2021, and the output from the same is satisfactory. However, the sales volume of black stone has not picked up due to land acquisition related issues, restricting INRPL's revenue growth. One of the black stone mines in Birbhum (Hatgacha) has been operational from the end of FY2022. However, INRPL is currently mining only on a small part of the overall land allocated by WBMDTC for the mine, due to encroachment on the rest of the land. The second black stone mine in Birbhum (Jethia) has not yet commenced operation due to persisting issues related to land acquisition.

Cargo handling business volumes remain exposed to economic cycles, export-import volumes and operational challenges related to a riverine port – The company's cargo handling operation remains exposed to vulnerability of the end-user industries to economic cycles. The scale of the cargo handling business also remains vulnerable to factors like foreign exchange rate fluctuation, changes in duty structure, government policies, customers' preference on port selection etc. which impact export and import volumes. The company's cargo handling volume declined by around 23% in FY2022, however, the same improved by 42% in FY2023. Being a riverine port, Haldia Dock Complex (HDC) requires periodic dredging to maintain its draft and navigability and is dependent on the Central Government's support for the same. Thus, continued support for dredging remains critical for operations and any reduction in support may have an adverse impact on operations.

Modest ROCE; sizeable investment in properties and Group companies affected overall returns – The company has a significant financial exposure in the form of investments, loans and advances to the Group companies and sizeable investments in properties without commensurate returns, negatively impacting the overall returns on its capital employed. Consequently, INRPL's ROCE remained low in the recent years (~4% over the last two fiscals).

Liquidity position: Adequate

INRPL's liquidity position is adequate. The company's fund flow from operations improved to Rs. 4.2 crore in FY2023 (provisional) vis-à-vis Rs. 0.5 crore in FY2022 and is likely to remain comfortable, going forward. It has sizeable free cash (~Rs. 11 crore, including fixed deposits, as on March 31, 2023), supporting the liquidity position. The company has a moderate repayment obligation of ~Rs. 2.7 crore in FY2024 and ~Rs. 0.8 crore in FY2025. The utilisation of the fund-based working capital limit (Rs. 1 crore) of the company remained very low/negative in the recent months. The company is likely to incur capex of Rs. 2-3 crore annually till FY2025 for installation of equipment for the mines and the IWAI contract. A larger capex may be undertaken in FY2026, to be funded by a mix of debt and internal accruals. However, INRPL's sizeable free cash and comfortable cash flow from operations are likely to keep its liquidity position adequate.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company's scale of operations improve significantly with sustenance of healthy profit margins.

Negative factors – Pressure on the ratings will emanate from any significant deterioration in profits and cash accruals of the company and/or weakening of its liquidity position due to any significant unanticipated debt-funded capex or a sizeable incremental financial exposure to Group entities. Specific credit metrics that may lead to a downgrade of the ratings include DSCR below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Mining
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of INRPL

About the company

Incorporated in August 2002, INRPL is involved in cargo handling (loading/unloading) at Haldia Dock Complex and mining of clay (China clay and fire clay) and black stone in Birbhum, West Bengal. The company had also been involved in share trading earlier, however, the same was discontinued in FY2023. INRPL has secured a long-term contract from IWAI for operating the multimodal terminal at Haldia, for which the operation is yet to commence. As per the terms of the contract with IWAI, INRPL has formed a special-purpose vehicle named IRC Multimodal Haldia Private Limited (IMHPL) through which the contract will be executed. INRPL holds a 60% stake in IMHPL, and the balance 40% is held by the promoters.

Key financial indicators (audited)

INRPL - Standalone	FY2022	FY2023*
Operating income	67.1	40.9
PAT	2.4	2.7
OPBDIT/OI	3.6%	14.3%
PAT/OI	3.6%	6.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	2.7	0.6
Interest coverage (times)	2.5	7.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022	Date & rating in FY2021
				Sep 27, 2023	Jun 27, 2022	-	Mar 10, 2021
1	Cash Credit	Long Term	1.00 -	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
2	Bank Guarantee	Long Term/ Short Term	29.00 -	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	[ICRA]BBB- (Stable)/ [ICRA]A3
3	Unallocated Limit	Long Term	6.00 -	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Long Term/ Short Term – Non-Fund Based (Bank Guarantee)	Very Simple
Long term – Unallocated limit	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	Cash Credit	NA	NA	NA	1.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	29.00	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Unallocated Limit	NA	NA	NA	6.00	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

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