October 20, 2023

MSPL 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 - Fund-based - Term Loans	265.0	1585.0	[ICRA]A+ (Stable); reaffirmed/assigned
Long-Term - Fund-based - Cash Credit	300.0	230.0	[ICRA]A+ (Stable); reaffirmed
Short-term – Non-fund based	465.0	465.0	[ICRA]A1+; reaffirmed
Long-Term – Unallocated Limits	460.0	70.0	[ICRA]A+ (Stable); reaffirmed
Long-term – Non-fund based	260.0	0.0	-
Total	**1750.0**	**2350.0**	

**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 or shipping subsidiary) – and a Group company, Ramgad Minerals and Mining Limited (RMML; rated [ICRA]A+ (Stable)/[ICRA]A1+), collectively referred to as the Group due to their common management and significant financial linkages among the entities.

The reaffirmation of the ratings factors in the established track record of the Baldota Group, spanning over six decades in the iron ore mining industry and the diversity in the Group's revenue streams with operations spread across iron ore mining, pellet production, renewable energy sales and shipping businesses. The ratings continue to factor in stable cash flows generated from its merchant wind power generation plants (capacity of 127.8 MW in MSPL and 67.75 MW in RMML). The ratings also consider the expiry of the mining lease of Vyasankara Iron Ore Mine (VIOM, having a peak rated capacity of 1.8 million tonnes per annum) in November 2022, which accounted for a significant share of the Group's earnings and also supplied iron ore for its pellet operations. ICRA notes that MSPL has bagged five iron ore mines, having a cumulative peak rated capacity of around 2.1 million tonnes per annum (mtpa) through auctions, partly mitigating risks associated with timely raw material availability. However, the high revenue share/ premia and inferior quality of reserves make them less attractive than VIOM. Besides, with three out of MSPL's five mines yet to start operations, the company might have to source costlier iron ore from the external market till all the mines are able to ramp up to their peak production levels.

The ratings, however, continue to factor in the absence of revenue share in RMML's 0.5-mtpa iron ore mine operating under the erstwhile allotment regime, and its residual validity till February 2026, which is expected to support healthy earnings for the next three years. In addition, the Group's profitability is supported by value enrichment through forward integration into beneficiation/ pelletisation facilities, and the gradually increasing share of renewable power (supporting its pellet operations), which enhances the cost competitiveness. The ratings also derive comfort from the Group's sizeable free cash and liquid investment balance of around Rs. 1,573 crore[1] outstanding as on March 31, 2023, resulting in a strong liquidity profile. ICRA believes that this is likely to limit dependence on external borrowing and cushion the Group's credit metrics despite the large debt-funded capex plans.

[1] Arrived at by applying appropriate haircuts on the gross unencumbered liquidity

The ratings, however, are constrained by the significant capital expenditure plan accumulating worth ~Rs. 2,058 crore at a consolidated level for the upcoming pellet plant[2], which is expected to increase the consolidated leverage and expose the Group to execution risks. ICRA further notes that the Baldota Group has signed an MoU with the Karnataka Government to set up a 3.5-mtpa integrated steel plant. While foray into the steel business remains at a very nascent stage at present, the timeline for its execution and funding pattern will remain a key monitorable from the credit perspective. The ratings also factor in the highly regulated nature of the iron ore mining industry as well as the company's exposure to inherent cyclicality in iron ore and pellet prices, which makes its margins volatile. ICRA also takes cognisance of MSPL's sizeable contingent liabilities, primarily towards disputed tax claims, which if crystallised, could adversely impact its liquidity profile. The ratings also remain constrained by the exposure of the Group to cash flow timing mismatches for the shipping business, given the fixed debt service commitments and volatility in time charter rates.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the Group's leverage metrics will continue to remain comfortable over the near-to-medium term, supported by calibrated growth plans and healthy profits from the pellet and renewable energy businesses.

Key rating drivers and their description

Credit strengths

Established track record of Baldota Group in metals and mining industry – The Baldota Group is one of the largest private sector iron ore mining companies in Karnataka, having operated the VIOM mine (lease expired in November 2022) under MSPL, and the Iyli Gurunath iron ore mine under RMML with mining lease validity till February 2026. ICRA takes comfort from the considerable experience of the promoters in the mining sector.

Captive mines partly mitigate risks associated with timely raw material availability for pellet plant; RMML's profitability continues to remain healthy by virtue of operating under the allotment regime – MSPL emerged as a preferred bidder for four category-C captive 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. These four mines have an approved mining capacity of around 2 mtpa. Additionally, the company bagged the Ashwathnarayana Singh (ANS) merchant mine in the auction conducted in 2019. While LMC and ANS have already commenced operations, KM, HGR and KLD are scheduled to start mining in FY2024. While these captive/merchant mines are likely to provide an assured supply of raw materials for the pellet division, timely operationalisation of these mines would be crucial due to expiry of VIOM's lease. RMML's cost of production from the Iyli Gurunath iron ore mine remains competitive, supported by its significantly lower revenue share with the state government compared to the mines, which have been won through the auction route. This provides a structural advantage to the company during the tenure of the current lease validity expiring in February 2026, as reflected by its healthy profit margins across the business cycles.

Profitability supported by value enrichment through pelletisation facilities and a gradually increasing share of low-cost green power – Anticipating the expiry of the VIOM mining lease, and the aggressive bidding in winning iron ore mines through auctions, MSPL has been focussing on enriching the product mix through forward integration into beneficiation and pelletisation facilities. While MSPL's average Fe grade for the newly won iron ore mines has been ~55%, the Group's beneficiation plant allows it to enrich the Fe content to ~63%. This leads to sizeable cost savings over the market price of similar grade iron ore, enhancing the cost competitiveness of the pellet operations. Additionally, the Group has made arrangements for sourcing 30 MW of renewable energy capacity (18 MW of windmill in MSPL and 12 MW of solar plant in group captive), which would meet 80-90% of the energy requirement of the pellet plant, leading to significant power cost saving over the medium term.

[2] Including upstream beneficiation capacity, operationalisation of the captive mines and development of supportive infrastructure

Merchant renewable energy business provides a steady stream of earnings – MSPL and RMML have sizeable wind energy generation capacity of 127.8 MW and 67.75 MW, respectively through wind assets in Maharashtra, Gujarat, Karnataka and Rajasthan. The energy generation from these assets is sold to the corresponding state discoms and provides steady earnings. That said, the plant load factors (PLFs) are influenced by variability in wind speed, seasonality in generation, and grid availability. In addition, the weak health of the state discoms exposes the company to counterparty risk associated with timely realisation of dues.

Healthy investments likely to limit external borrowing and cushion the credit metrics despite large debt-funded capex plans – The Group's consolidated liquidity position is strong, supported by unencumbered cash and liquid investments of around Rs. 1,573 crore[3] as on March 31, 2023 comprising fixed deposits, free cash, listed equity shares/debentures/GSecs, and mutual funds. In addition, the Group has additional unlisted investments worth ~Rs. 617 crore (as on March 31, 2023) in equity shares of the National Stock Exchange.

Credit challenges

Significant debt-funded capex plans to increase the consolidated leverage and expose the Group to execution risks – The pellet business, which currently has a capacity of around 1.2 mtpa, is planned to be increased to around 4 mtpa (~2.8 mtpa incremental capacity addition) by H1 FY2025. The overall expected capital cost for the pellet capacity expansion stands at around Rs. 2,058 crore (including contingencies and provisions). The capex also includes development of KM, HGR and KLD captive mines, support infrastructure including downhill pipe conveyor, a 1.5-mtpa beneficiation plant and an iron ore grinding unit, supporting the upcoming pellet plant. Project debt worth Rs. 1,338 crore has been sanctioned and the balance Rs. 720 crore will be funded from internal accruals. The large capex exposes the company to project execution risks. Also, given the debt-funded nature of the project, it would increase the repayment obligations, going forward.

High auction premia along with inferior grade of iron ore reserves in the newly acquired leases to lead to moderate profits from the mining business, going forward – The four captive and one merchant mine acquired by MSPL through auctions were at a premium, averaging around 105%, which would entail sizeable revenue share with the state government, adversely impacting the cost competitiveness of the mining business. In addition, moderate grade of iron ore reserves (~55% Fe) for the newly acquired mines is expected to generate modest profits from the mining business, going forward.

Risks arising from operating in a highly regulated iron ore mining industry; margins exposed to volatile iron ore prices – The Group is vulnerable to the fluctuations in domestic iron ore prices, given its linkages with the inherently cyclical steel sector, which is its only end-user industry. Additionally, the Group operates in a highly regulated iron ore mining industry, which exposes it to regulatory risks. In FY2023, there have been multiple policy changes, which impacted the iron ore miners in Karnataka, including lifting of the export ban by the Supreme Court, imposition and reversal of export duties, and discontinuation of auctions conducted by the Monitoring Committee.

Sizeable contingent liabilities in MSPL – MSPL had contingent liabilities accumulating worth around Rs. 1,717 crore as on March 31, 2023, which include a corporate guarantee of Rs. 329.9 crore extended for the loans availed by the shipping subsidiary. However, post refinancing of the loans at the shipping subsidiary in the current fiscal, the corporate guarantee is no longer there. ICRA notes that a large part of the balance liabilities (Rs. 816.2 crore as on March 31, 2023) is towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

Exposure to cash flow timing mismatch for the shipping business, given the fixed debt service commitments and volatility in time charter rates – The shipping business of the Group remains exposed to the inherent cyclicality in the shipping industry and volatility in the charter rates. Notwithstanding the recent refinancing of the loan at the shipping entity, which has an elongated maturity with low debt service commitments in the initial years, the shipping business will remain exposed to cash flow timing mismatch. Given the steep correction in charter rates in the current fiscal, the earnings for the shipping business

[3] Arrived at by applying appropriate haircuts on the gross unencumbered liquidity

are expected to be inadequate to meet the scheduled repayments, with the shortfall being bridged from the surplus financing availed during refinancing of the erstwhile shipping loan.

Liquidity position: Strong

The Group's consolidated liquidity position is expected to remain **strong** over the next 12-18 months, supported by sizeable, unencumbered cash and liquid investment balances and a consistent track record of healthy free cash flow generation. Its consolidated cash accruals in FY2024 and FY2025 are likely to remain higher than its equity contribution towards the proposed capex and consolidated debt repayment obligations, which makes ICRA believe that the Group is poised to remain net debt negative in FY2024 and FY2025. This lends additional comfort to its liquidity profile.

Rating sensitivities

Positive triggers – ICRA could upgrade the Group's ratings if it demonstrates substantial increase in its scale while maintaining healthy operating profit margins, comfortable liquidity, and a conservative capital structure/ leverage metrics.

Negative factors – Negative pressure on the Group's ratings could arise if any cost overruns in ongoing capex or any unexpected major debt-funded capex/acquisition leads to a significant deterioration in its debt protection metrics. Specific metrics which can exert pressure on the ratings includes consolidated net debt-to-operating profit remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology for Wind Power Producers Rating Methodology for Entities in the Shipping Industry Rating Methodology for Ferrous Metal Entities
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, RMML. As on March 31, 2023, the company had three subsidiaries that are enlisted in Annexure-2.

About the MSPL Group

MSPL Limited

MSPL Limited is the flagship company of the Karnataka-based Baldota Group. It was promoted by Late A. H. Baldota in 1962. The company is managed by Mr. Narendrakumar Baldota and his two sons. The Group has presence in diverse businesses such as iron and steel, renewable energy, shipping and logistics, and industrial gases. MSPL operated one of the largest private sector mines in Bellary district, Karnataka, the Vyasanakere Iron Ore Mine (VIOM; lease expired in November 2022). It 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.

Ramgad Minerals and Mining Limited

Ramgad Minerals and Mining Limited was set up as a partnership concern in 1979 and was reconstituted as a public limited company in 2009. RMML held a mining lease for three iron ore mines in Bellary district, of which only one (0.5 mtpa Iyli Gurunath iron ore mine) is operational at present. RMML also owns wind assets across Gujarat, Karnataka, Rajasthan and Maharashtra and has a total installed capacity of 67.75 MW.

MSPL Maritime Pte Limited

MSPL Maritime Pte Limited (MMPL) is a wholly-owned subsidiary of MSPL and functions purely as a holding company for its subsidiary, MSPL Diamonds Pte Limited (MDPL), which owns and operates four post-Panamax vessels of 92,500 deadweight tonnage (DWT) for voyages carrying bulk cargoes primarily in the Pacific Ocean.

Aaress Iron and Steel Limited

Aaress Iron and Steel Limited (AISL) was incorporated in December 2005 to install a 1-mtpa integrated steel plant including a captive power plant at Koppal, Karnataka. It is a wholly-owned subsidiary of MSPL, and has no meaningful operations at present. The company had obtained a 10-year lease rights (with an option to purchase the lease land after the lease period) of 922 acres from the Karnataka Industrial Areas Development Board (KIADB). The company has further acquired 98 acres of land through the Government of Karnataka and directly from landowners for its future expansion.

P. Venganna Setty and Bros

P. Venganna Setty and Bros (PVS) is a partnership firm set up in 1952 by its promoters, Mr. P. G. Nagbhushan and family. MSPL Limited acquired a 90% stake in the concern in 1980, while the remaining 10% was retained by the erstwhile promoters. PVS holds a mining lease for the Pathikonda Iron Ore Mine (PIOM), a 'Category-B' open-cast mine in the Bellary district of Karnataka. The mining lease for PIOM expired in March 2020. The firm also owns wind assets totalling 14.8 MW in Karnataka and Gujarat.

Key financial indicators (MSPL Consolidated + RMML)

Consolidated financials*	FY2022 (Audited)	FY2023 (Audited)
Operating income	2,227.2	1,985.4
PAT	839.9	435.8
OPBDIT/OI	55.7%	36.7%
PAT/OI	37.7%	21.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDITA (times)	0.7	0.9
Interest coverage (times)	24.1	11.9
Net Debt/OPBDITA (times)	-0.3	-1.3

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidated by ICRA using MSPL consolidated and RMML standalone financials*

Key financial indicators (MSPL Consolidated)

Consolidated financials	FY2022 (Audited)	FY2023 (Audited)
Operating income	1971.4	1842.1
PAT	750.4	413.4
OPBDIT/OI	55.7%	36.3%
PAT/OI	38.1%	22.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.2
Total debt/OPBDITA (times)	0.9	0.9
Interest coverage (times)	16.8	11.5

Source: Company; P – Provisional; 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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Oct 20, 2023	Feb 23, 2023	Dec 02, 2021	Mar 05, 2021	Oct 05, 2020
1	Term loans	Long term	1585.0	245.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Cash credit	Long term	230.0	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund based	Short term	465.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+
4	Unallocated	Long term	70.0	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
5	Standby letter of credit	Long term	0.0	--	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple
Non-fund based	Very Simple
Unallocated	NA

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2013	-	FY2035	1585.0	[ICRA]A+ (Stable)
NA	**Cash credit**	-	-	-	230.0	[ICRA]A+ (Stable)
NA	**Non-fund based**	-	-	-	465.0	[ICRA]A1+
NA	**Unallocated**	-	-	-	70.0	[ICRA]A+ (Stable)

Source: Company

Please Click here to view details of lender-wise facilities rated by ICRA

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 Limited	100.00%	Full Consolidation
MSPL Diamond Pte Limited	100.00% (step down subsidiary of MSPL Maritime Pte Limited)	Full Consolidation
P Venganna Setty & Bros	90.00%	Full Consolidation
Ramgad Minerals and Mining Limited	Group company	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91-33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91-22- 61693328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33-61143438
ritabrata.ghosh@icraindia.com

Deepayan Ghosh
+91 33 7150 1220
deepayan.ghosh@icraindia.com

Arpit Arora
+91- 124- 4545388
arpit.arora@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches