

## Essel Mining & Industries Limited

March 29, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1500.00	1000.00	[ICRA]A1+ reaffirmed; 'rating watch with negative implications' removed
Fund Based Limits	150.00	150.00	[ICRA]A1+ reaffirmed; 'rating watch with negative implications' removed
Non-Fund Based Limits	70.00	70.00	[ICRA]A1+ reaffirmed; 'rating watch with negative implications' removed
<b>Total</b>	<b>1720.00</b>	<b>1220.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the ratings and removed the 'rating watch with negative implications' from Essel Mining & Industries Limited's (EMIL or the company)<sup>1</sup> short term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1000-crore<sup>2</sup> (reduced from Rs. 1500-crore) commercial paper programme, Rs. 150-crore fund based facilities, and Rs. 70-crore non-fund based facilities.

### Rationale

The removal of 'rating watch with negative implications' factors in the resumption of mining operations at the 4 million tonne per annum (mtpa) Koira iron ore mine from the middle of February 2018<sup>3</sup> following the payment of compensation demanded by the State Government towards forest-clearance violations, and subsequent approval for mining resumption by the Hon'ble Supreme Court. Moreover, EMIL has received approval from the Apex Court for commencing operations at the 6.28 mtpa Jhilling iron ore mine, which had remained closed for the last four years.

ICRA expects that following resumption of full-fledged operations from Koira and Jhilling, EMIL's operating profit is expected to register a year-on-year (YoY) jump of around 180% in FY2019 over FY2018. This sharp jump will be led not only by the higher iron ore sales of around 9.2 mt in FY2019 against 4.2 mtpa in FY2018, but also by the superior profitability from Jhilling's operations as compared to Koira, given its high lump to fines mix, better Fe grade of iron ore, and lower overhead costs.

EMIL has funded Rs. 2820-crore of compensation on account of forest and environmental clearance violations through incremental borrowing of around Rs 2100-crore. This is expected to increase the standalone debt to around Rs. 3450-crore as on March 31, 2018 against Rs. 1358-crore as on March 31, 2017. However, given the expected ramp-up in mining operations, ICRA expects EMIL's debt coverage metrics to improve in FY2019 and FY2020 as compared to FY2018. Interest coverage is expected to remain in the range of 3.7-4.0 times between FY2019 and FY2020, against 2.6 times in FY2018E and 1.3 times in FY2017. Moreover, Total debt to OPBITDA is expected to remain in the range of 2.9-3.3 times between FY2019 and FY2020, against 9.2 times in FY2018E and 5.5 times in FY2017. Moreover, EMIL's free cash flows will be adequate to meet scheduled debt repayments in FY2019 and FY2020. EMIL's Jhilling lease would expire after March

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

<sup>3</sup> Koira was under 'temporary discontinuation of operations' from January 01, 2018 to February 15, 2018

31, 2020, following which the company's turnover and profits is expected to register a fall in FY2021. ICRA expects that to retire the residual debt outstanding as on March 31, 2020, EMIL is likely to need additional group support of around Rs. 500-1100-crore. Given EMIL's strategic importance to the AV Birla Group due to the sizeable investment portfolio of its wholly-owned subsidiary in multiple group entities, ICRA expects that EMIL will receive timely support from the Group when required.

ICRA further notes that the Hon'ble Supreme Court had earlier constituted a Committee to examine whether there has been any violation of Section 6 of 'The Mines and Minerals (Development and Regulation) Act, 1957' during the process of renewal of EMIL's Jhilling, Kasia, Unchabali, and Sarkunda mines. The final findings by the Committee are awaited. Moreover, the final outcome at the 'Mines Tribunal' on additional claim by the State Government towards non-compliance to Consent-to-Operate (CTO) and/or Mining Plan (MP) is awaited too. ICRA would monitor the developments in this regard, and review the performance after any material outcome of the legal process.

## Key rating drivers

### Credit strengths

**Status of EMIL as a part of the Aditya Birla Group** - EMIL, a closely held company of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. Over the years, EMIL has made substantial investments towards funding multiple businesses of the Aditya Birla Group. Most of these investments have been channelled through its wholly-owned subsidiary (IGH Holdings Private Limited). Given the large quantum of its investments, EMIL remains a strategically important company to the Aditya Birla Group, which provides support to the rating.

**High financial flexibility and comfortable liquidity profile derived from EMIL's large investment portfolio and its strong relationship with domestic banks** – As on March 31, 2018, EMIL's consolidated debt would stand at around Rs. 4950-crore. However, at current valuations, the liquid investment to debt cover for EMIL and IGH (combined entity) would remain around 3 times. This imparts financial flexibility to EMIL, as indicated by its demonstrated ability to borrow at competitive interest rates. Despite the increase in fresh borrowings, EMIL's capital structure continues to remain conservative, as indicated by a standalone gearing of 0.54 times as on March 31, 2018E.

**Low cost of mining operations, and high grade of its deposits with high iron content** – Historically, EMIL's healthy profits generated from the mining business has been the source for funding other businesses of the AV Group. The healthy profits from the mining business have been supported not only by EMIL's low cost of production, but also by the high grade of its iron ore deposits. The average Fe grade for EMIL's Koira mine remains in the range of 60-62% and the same for the Jhilling mine remains in the range of 63-64%.

### Credit challenges

**Uncertainty over the future of EMIL's iron ore mining business in the medium to long term** - EMIL's lease validity for the Jhilling and Koira mines will expire after March 31, 2020 and August 21, 2021 respectively. In the context of the slow pace of iron ore mine auctions in Odisha thus far, and the aggressive bidding seen by captive users to acquire blocks, the future of EMIL's iron ore mining business in the medium to long term remains uncertain at the moment following the expiry of the existing leases.

**Exposed to regulatory risks associated with the iron-ore mining industry** - EMIL remains exposed to regulatory risks associated with the iron ore mining industry in the country. ICRA notes that the May 16, 2014 order of the Hon'ble Supreme Court had led to a suspension of mining activities at various iron ore mines in Odisha which were operating under the second or more deemed renewal clause, including the Jhilling and Kasia mines. Moreover, EMIL had to bear a hefty compensation of Rs. 2820-crore on account of forest and environmental clearance violations after the August 02, 2017 order of the Apex Court. Going forward, the outcome of the legal process of the Court appointed Committee looking into Section 6 violations, and the Mines Tribunal looking into non-compliance to MP/CTO remain key regulatory monitorables.

**Exposed to fluctuations in iron ore prices, leading to volatility in profits and cash flows** - EMIL's earnings from the mining business remains volatile, being exposed to fluctuations in iron ore prices. However, EMIL's 135-MW renewable energy portfolio and noble ferro-alloy businesses, which generates a stable annual EBITDA of around Rs. 120-crore, gives some stability to its earnings from the volatile cash flows of the mining business.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Mining Entities](#)

## 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. The company is also one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit located in Gujarat and catering to the domestic special and alloy steel industries. EMIL also operates a 75-MW wind-power generation unit in Maharashtra. Additionally, the company has commissioned a solar power generation project of 20-MW under Rajasthan State Solar Policy, and another 35-MW solar power generation project under the Andhra Pradesh State Solar Policy.

In FY2017, the company reported a net loss of Rs. 41.98-crore on an operating income of Rs. 949.93-crore, as compared to a net profit of Rs. 31.19-crore on an operating income of Rs. 757.78-crore in the previous year.

## Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	757.78	949.93
PAT (Rs. crore)	31.19	-41.98
OPBDIT/ OI (%)	27.24%	25.90%
RoCE (%)	2.29%	1.63%
Total Debt/ TNW (times)	0.18	0.15
Total Debt/ OPBDIT (times)	7.81	5.52
Interest coverage (times)	1.17	1.32
NWC/ OI (%)	9%	10%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Current Rating (FY2018)									
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating					
				Mar 2018	Jan 2018	Dec 2017	Aug 2017	Jun 2017	
1 Commercial Paper	ST	1000.00	645.00*	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	
2 Fund Based Limits	ST	150.00	-	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	
3 Non-Fund Based Limits	ST	70.00	-	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	

@'Under rating watch with negative implications'; \*as on March 15, 2018

Chronology of Rating History for the past 3 years									
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2017		Date & Rating in FY2016		Date & Rating in FY2015	
				Feb 2017	Aug 2016	Feb 2016	Aug 2015	Mar 2015	Jun 2014
1 Commercial Paper	ST	1000.00	645.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Fund Based Limits	ST	150.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Non-Fund Based Limits	ST	70.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

\*as on March 15, 2018

**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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE077E14AD9	Commercial Paper	17-Jul-17	-	23-Mar-18	50.00	[ICRA]A1+
INE077E14AF4	Commercial Paper	09-Jan-18	-	15-Jun-18	200.00	[ICRA]A1+
INE077E14AF4	Commercial Paper	11-Jan-18	-	15-Jun-18	45.00	[ICRA]A1+
INE077E14AI8	Commercial Paper	13-Mar-18	-	13-Jun-18	200.00	[ICRA]A1+
INE077E14AH0	Commercial Paper	15-Feb-18	-	15-May-18	150.00	[ICRA]A1+
-	Commercial Paper	Undrawn	-	-	355.00	[ICRA]A1+
NA	Fund Based Limits	NA	-	NA	150.00	[ICRA]A1+
NA	Non-Fund Based Limits	NA	-	-	70.00	[ICRA]A1+

Source: EMIL

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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.

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)

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