

October 06, 2020

Chowgule and Company Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	145.00	79.86	[ICRA]A(Stable); Reaffirmed
Non-fund Based - Bank Guarantee	135.00	150.00	[ICRA]A(Stable); Reaffirmed
Fund-based - Cash Credit	145.00	145.00	[ICRA]A1; Reaffirmed
Non-fund based - Letter of Credit and Forward Contract/Derivative Limit	37.03	22.03	[ICRA]A1; Reaffirmed
Unallocated Limits	-	299.11	[ICRA]A(Stable)/A1; Reaffirmed
Total	462.03	696.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings takes into account the ramp up in Chowgule and Company Private Limited (CCPL's) non-mining businesses such as shipbuilding and ship repair over the last two years, which has allowed the company to recover the significant revenue losses in its traditional mining business in Goa since FY2018. With an uncertainty associated with the resumption in Goa's mining business, ICRA expects the non-mining business segment will continue to offset the impact and lead to an improvement in the CCPL's scale of operations and profitability going forward. The ratings also continue to draw comfort from CCPL's low-cost mining operations in Karnataka and the increase in mining allocation limits in FY2019 that are generating healthy profits at the current iron ore prices. ICRA also takes into consideration the favorable verdict by the Supreme Court in January 2020, which allows the company to sell the mined ore lying at Goa, which will boost the company's cash accruals and liquidity position in FY2021.

The ratings, however, continue to be constrained by the vulnerability of the company's profitability to volatility in iron ore prices and foreign exchange rates, and its susceptibility to adverse developments in the regulatory framework such as changes in government policies regarding increase in royalty rates, or export duty, or ban on exports of fines/lumps. ICRA also takes into consideration the near-to medium-term demand disruptions caused by the Covid-19 pandemic, which could impact some of the company's business segments. Further, the losses reported by the company in its pelletisation plant in FY2020 resulted in lower-than-anticipated overall profitability. Going forward, a ramp up in volumes and contribution from the pelletisation segment will be important to improve the overall performance. Further, while arriving at the ratings, ICRA has taken note of the debt service reserve account (DSRA) guarantee provided by CCPL for the entire loan tenure of one of its subsidiaries - Angre Port Private Limited (APPL). Though the cargo throughput at APPL has increased in the last fiscal, it continues to remain low. As a result, the cash flow support from CCPL to APPL is expected to continue in the near to medium term.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company is expected to maintain its business positioning and will report steady revenue growth with ramp up in the non-mining businesses.

Key rating drivers and their description

Credit strengths

Strong competitive position in mining - CCPL has a strong position in the mining sector, driven by the company's large iron ore reserves in Goa and Karnataka, low-cost operations, and logistical advantage with mines connected to inland waterways. CCPL has mining leases for ten mines at Goa and two mines in Karnataka, with ore reserves sufficient for the next 25 years at past production rates. While Goa's ban-led closure of mining operations since March 2018 has impacted the revenues, any favourable resolution and resumption of mining operations would be significant credit positive for the company. Following the favourable verdict by the Supreme Court in January 2020, which allows the sale of mined ore lying at Goa, CCPL's performance in FY2021 will be supported by liquidation of its mined inventory.

Long-standing relationship with key customers - The company has an evergreen contract with Japan-based JFE Holdings Inc. CCPL typically sells ~80% of its total production in Goa to JFE, which guards the company from demand uncertainty. The company predominantly sells low-grade ore i.e. less than 58 Fe grade from Goa operations, since it does not carry any export duty. If the mining operation in Goa resumes, the company's longstanding relationship with JFE would support healthy ramp up of operations.

Recovery in performance with improvement in revenues and profitability of other divisions - Besides mining, CCPL is also involved in shipbuilding, ship repairing, shipping and pelletisation. The financial performance of the shipbuilding and the ship repairing division have witnessed significant improvement in FY2020 (the revenues in shipbuilding division grew to Rs. 131 crore and ship repairing division grew to Rs. 180 crore in FY2020, witnessing a 283% and 208% y-o-y growth respectively). Moreover, the shipbuilding division has an outstanding order book position of ~Rs. 276 crore, which provides healthy revenue visibility over the next two years, while the ship repairing division has repair orders for rigs, commercial vessels and defence vessels.

Comfortable capital structure and healthy liquid investments - The capital structure of CCPL remained comfortable, as reflected by gearing levels at 0.2 times in FY2020-end. The capital structure is primarily supported by a robust net worth base of Rs. 1536 crore as on FY2020-end. Moreover, the company has healthy cash and cash equivalents worth over ~Rs. 115 crore as on September 2020, which provides additional comfort.

Credit challenges

Cancellation of mining leases in Goa affects cash flows and debt coverage metrics - The iron ore mining operations were halted in Goa (w.e.f. March 2018), following the Supreme Court order in February 2018. This has adversely impacted cash flows and profitability of the company over the past few years. The company reported operating losses in FY2019 owing to fixed costs pertaining to the Goa mining; however, it has undertaken significant cost-cutting measures subsequently that improved the operating profitability in FY2020. While the improvement in performance of non-mining businesses has offset the impact on the profitability and coverage indicators of the company to some extent, the Total Debt/OPBDITA and interest coverage at 3.5 and 3.2 times, respectively, in FY2020 continue to be modest and should see an improvement going forward.

Underperformance in pelletisation business impacted the profitability - CCPL has restarted its pelletisation operations in FY2020 that had been shut down since 2012 for being unviable. The resumption of operations was, however, impacted during the fiscal, resulting in the company reporting losses in its pelletisation plant in FY2020. Going forward, a ramp up in volumes and contribution from the pelletisation business, which is expected to resume operations in current fiscal, and its ability to generate healthy recurring order flow remains to be seen.

Vulnerability of profitability and cash flows to volatility in iron ore prices and foreign exchange rates - CCPL's profitability remains vulnerable to fluctuations in the international and domestic iron ore prices and deterioration in the iron content of its reserves. Also, majority of CCPL's revenues are denominated in USD or EUR, exposing the company's profitability to volatility in foreign exchange rates. However, the company's EUR-denominated imports for its shipbuilding division help in reducing the net forex exposure to some extent.

Mining operations vulnerable to adverse development in regulatory framework - CCPL's operations remain vulnerable to adverse developments in the regulatory framework for iron ore operations such as changes in the government policies regarding increase in royalty rates/export duty or ban on exports. The company's operations were significantly impacted during FY2013-FY2015 due to the ban on mining operations. While the mining activity subsequently resumed, the Supreme Court order in March 2018 cancelling the licenses for mining iron ore in Goa has once again impacted the operations of the company.

DSRA guarantee to APPL - CCPL has provided a guarantee to meet any shortfall in the debt service reserve account for the entire loan tenure of APPL (a direct subsidiary of CCPL). APPL's performance witnessed an improvement in FY2020, supported by an increase in the cargo throughput handled at the port, though it continues to remain low. Thus, CCPL has been providing regular cash support to APPL (~Rs. 7.4 crore in FY2020). However, with APPL refinancing its term loan, the DSRA guarantee is now shared between CCPL and two other group companies - Chowgule Industries Private Limited and Chowgule and Company (Salt) Private Limited. Further, with expected improvement in the cargo throughput handled at port, the APPL's requirement of cash flow support from CCPL is expected to decline going forward.

Liquidity position: Adequate

CCPL's liquidity position is **adequate**, with healthy expected cash accruals vis-à-vis debt repayments. Further, the company has healthy cash balances and liquid investments over ~Rs. 115 crore as on September 2020, which provides additional comfort. Moreover, CCPL's support to its subsidiaries is expected to decline going forward. While CCPL would be required to support its direct subsidiary, APPL, pertaining to debt repayments and interest obligations, the latter's debt servicing obligations have declined owing to the part refinancing of its term loan in March 2019. The company has also applied for an enhancement in its fund-based facilities, which is expected to support the future expansion plans.

Rating sensitivities

Positive triggers - The ratings could be revised upwards if the company demonstrates a significant improvement in revenues and profitability, leading to higher-than-expected cash accruals. Specific credit metrics that could lead to an upward revision in ratings will be Total Debt/OPBDITA below 1.5 times on a sustained basis.

Negative triggers - Negative pressure on CCPL's ratings could arise if any decline in revenues or profitability leads to lower-than-expected cash accruals; or if higher-than-anticipated funding support to APPL leads to tightening of CCPL's liquidity position. Specific credit metrics that could lead to a downgrade in ratings is Total Debt/OPBITDA above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Mining Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CCPL. However, in line with its limited consolidation approach, ICRA has factored in the rated entity's support to its wholly owned subsidiary, APPL, for debt servicing and other purposes, if required.

About the company

Chowgule and Company Private Limited is the flagship company of the Chowgule Group. The company was established in 1941 for mining and exports of iron ore in Goa. Over a period, the company has forayed into shipbuilding, ship repair, shipping, material handling equipment and has two mining leases in Karnataka. The company also has a pelletisation plant, having an overall capacity of ~1.8 million tonnes per annum. The plant has remained non-operational since 2012 and is expected to resume operations in the current fiscal. The company entered into ship repairs through its step-down subsidiary, Lavgan Dockyard Private Limited, which got merged with CCPL on April 1, 2017. CCPL also operates an all-weather port at Jaigad through its subsidiary, Angre Port Private Limited.

In FY2020, on a standalone basis, the company reported a net profit of Rs. 8.6 crore on an operating income of Rs. 523.5 crore compared to a net loss of Rs. 191.1 crore on an operating income of Rs. 275.6 crore in FY2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	275.6	523.5
PAT (Rs. crore)	(191.1)	8.6
OPBDIT/OI (%)	(1.0%)	16.5%
PAT/OI (%)	(69.3%)	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	(108.2)	3.5
Interest Coverage (times)	(0.1)	3.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					06-Oct-2020	7-Oct-2019	16-Aug-2018	16-Feb-2018
1	Term Loan	Long Term	79.86	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A+@	[ICRA]A+@
2	Bank Guarantee	Long Term	150.00	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A+@	[ICRA]A+@
3	Cash Credit	Short Term	145.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+@
4	Letter of Credit and Forward Contract/ Derivative Limit	Short Term	22.03	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+@	[ICRA]A1+@
5	Unallocated Limits	Long Term / Short Term	299.11	-	[ICRA]A(Stable)/A1	-	-	-

Amount in Rs. crore; @ Under rating watch with negative implications

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	NA	NA	79.86	[ICRA]A(Stable)
NA	Bank Guarantee	NA	NA	NA	150.00	[ICRA]A(Stable)
NA	Cash Credit	NA	NA	NA	145.00	[ICRA]A1
NA	Letter of Credit and Forward Contract/ Derivative Limit	NA	NA	NA	22.03	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	299.11	[ICRA]A(Stable)/A1

Source: Chowgule and Company Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Angre Port Private Limited	100%	Limited Consolidation

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