

October 07, 2020

Maheshwari Mining 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 – Cash Credit	32.00	32.00	[ICRA]BBB (Stable); Reaffirmed
Fund based – Working Capital Demand Loan ¹	(16.00)	(18.00)	[ICRA]BBB (Stable); Reaffirmed
Fund Based – Foreign Currency Demand Loan ¹	-	(7.00)	[ICRA]BBB (Stable); Reaffirmed
Non-Fund based – Bank Guarantee	43.00	46.00	[ICRA]A3+; Reaffirmed
Non-Fund based – Letter of Credit ¹	(7.00)	(7.00)	[ICRA]A3+; Reaffirmed
Unallocated Limits	10.00	47.00	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Total	85.00	125.00	

*Instrument details are provided in Annexure-1

¹Sublimit of Cash Credit/ Bank Guarantee

Rationale

The reaffirmation of the ratings considers long experience of the promoters of Maheshwari Mining Private Limited (MMPL) in the mining industry and the company's reputed client profile, which mitigate the counterparty credit risk to a large extent. The ratings also derive comfort from the healthy order book position of ~Rs. 1,363 crore as on September 2, 2020, which provides adequate revenue visibility in the near to medium term. The ratings further consider MMPL's steady growth in the top line and cash accruals over the past few years, and favourable financial profile, characterised by healthy margins, a conservative capital structure and comfortable level of coverage indicators.

The ratings, however, continue to be constrained by MMPL's high working capital intensity of operation on the back of high receivables and inventory, and the high client concentration risk as the top five customers contributed around 84% to the revenue in FY2020 (provisional). The current order book also remains skewed towards five major clients that accounted for around 93% of the total order book. The ratings also factor in the competitive nature of the industry due to tender-based order awarding system, which have some bearing on the margins. ICRA also notes that MMPL has significant debt-funded capital expenditure plan over the next few years to ramp up its operations, which will result in sizeable long-term debt service obligations in the near to medium term.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that MMPL will continue to benefit from its established track record of operations in the mining industry and a healthy order book position.

Key rating drivers and their description

Credit strengths

Long experience of promoters in the mining industry – The company is promoted by the Kolkata-based Ganeriwala family which has an experience of more than 15 years in the mining industry. The company has a team of experienced engineers and has also tied up with various reputed overseas entities for availing quality mining machinery and consultancy, which strengthen its operational profile and give it a competitive advantage over its peers in India. The company's day-to-day operations are looked after by Mr. Sanjiv Ganeriwala and Mr. Rajiv Ganeriwala, along with a team of experienced professionals.

Reputed client profile, leading to low counterparty risk – The company has a reputed client base, which includes Hindustan Zinc Ltd., Hindustan Copper Ltd., Indian Metal & Ferro Alloys Ltd., Atomic Mineral Directorate for Exploration

& Research, Central Mine Planning and Design Institute Ltd., Tata Steel Ltd. and Geological Survey of India among others. A reputed client base reduces the counterparty risk to a large extent.

Healthy order book position, leading to adequate revenue visibility in near to medium term – The order book of MMPL stood at around Rs. 1,363 crore as on September 2, 2020 (7.01 times of the revenues in FY2020), which provides adequate revenue visibility in the near to medium term. ICRA notes that the ability of the company to scale up its resources both in terms of machinery and manpower for the successful execution of the current healthy order book in due time will remain a key rating factor, going ahead.

Steady growth in top line and cash accruals over the past few years – The operating income of MMPL has increased at a healthy compounded annual growth rate (CAGR) of ~22% during FY2016 to FY2020 (provisional). It increased to Rs. 194.52 crore in FY2020 (provisional) from Rs. 177.06 crore in FY2019, registering a YoY growth of ~10%, primarily on the back of an increase in mining activities. However, the scale of operations continues to remain at a moderate level. ICRA notes that the cash accruals from the business have remained healthy and witnessed a steady increase over the past few years on account of execution of more profitable contracts and various cost control measures adopted by the company, which include increasing labour efficiency and developing skilled manpower, undertaking of refurbishment of mining equipment in-house etc. In 4M FY2020 (provisional), the company reported a profit after tax of Rs. 7.50 crore against a top line of Rs. 50.03 crore. Given the current healthy order book and the pace of execution, ICRA does not expect any deterioration in the top line as well as cash accruals of the company in the near term.

Favourable financial profile characterised by a conservative capital structure and comfortable coverage indicators – The capital structure of the company continued to remain conservative, as depicted by a gearing of 0.42 times (0.49 times as on March 31, 2019) as on March 31, 2020 (provisional), despite an increase in the total debt of the company for funding the working capital requirements during the fiscal. On account of healthy profits as well as cash accruals and low gearing, the coverage indicators also stood at a comfortable level over the past two years. In view of adequate profits and cash accruals from the business and low gearing, ICRA expects that the overall coverage indicators of MMPL would continue to remain comfortable, going forward.

Credit challenges

High working capital intensity of operation – The working capital intensity of operations, which always remained high in the past few years, increased further to 48% in FY2020 (provisional) from 44% in FY2019 due to an increase in the receivables and inventory holding. This resulted in a high working capital requirement, which in turn impacted the cash flow from operations, and led to an increase in the working capital borrowings.

Competitive nature of industry due to tender-based order awarding system – MMPL secures work orders through tenders floated by various parties. Entities that meet the technical qualification criteria qualify for financial bidding, and subsequently the contract is awarded to the lowest (L1) bidder. Due to such tender-based order procurement, the company faces stiff competition, which have some bearing on the margins.

Exposure to client concentration risk – Around 84% of the company's revenues was contributed by the top five customers in FY2020. The current order book also remains skewed towards five major clients, accounting for around 93% of the total order book, which exposes the company to high client concentration risk.

Debt-funded capital expenditure would continue to keep debt servicing obligations high – The company relies mainly on external financing for funding the capital expenditure undertaken for purchase of machine and equipment required for ramping up the mining operation, which will result in sizeable long-term debt service obligations in the near to medium term.

Liquidity position: Adequate

ICRA notes that MMPL has significant debt-funded capital expenditure plan over the next few years, which will result in high long-term debt service obligations in the near to medium term. Moreover, high receivables and inventory levels,

along with significant cash margin given against bank guarantees issued to its customers as performance guarantee, and retention money withheld by the clients as per terms of the contracts, would continue to keep its working capital requirement at a high level. However, ICRA expects the cash flows from operation would remain adequate to meet the company's debt servicing obligations. Besides, the undrawn working capital limits would provide comfort to the liquidity position of the company to an extent. Moreover, MMPL availed moratorium on the EMIs of the major portion of the equipment loans for April and May 2020 and also availed Covid-19 emergency credit line of Rs. 4.46 crore from banks in September 2020, to tide over Covid-19 disruptions, which will provide an additional comfort to its liquidity position in the near term at least.

Rating Sensitivities

Positive triggers – ICRA may upgrade MMPL's ratings if the company demonstrates a significant improvement in its scale of operations along with maintaining its profitability, leading to healthy cash accruals and better working capital management on a sustained basis.

Negative triggers – Pressure on MMPL's ratings may arise if any material support is extended to weak Group/ associate companies, which may adversely impact the company's liquidity position. An increase in the working capital intensity of operations and/ or a delay in order execution, which may lead to liquidity tightness and/or a significant decline in revenue and profits of the company, may also exert pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Mining Entities
Parent/ Group Support	Not Applicable
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 1994, Mecons Consulting Private Limited initially used to supply fly ash bricks. In 2002, the company was renamed as Maheshwari Entrepreneurs Private Limited. In 2003, the company commenced mining activities and again changed its name to Maheshwari Mining Private Limited (MMPL). At present, MMPL provides diversified underground mining services including mine development, contract mining, survey, exploration and geotechnical services for coal and other minerals like zinc, copper, uranium, manganese ore etc. MMPL also provides machinery on a hire basis, related to mining activities. In FY2016, the management merged its three Group companies — Surya Tracom Pvt. Ltd., Subham Marketing Pvt. Ltd. and Promise Vincom Pvt. Ltd. — with MMPL. The headquarter of the company is at Raniganj, West Bengal, and has regional offices across India.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)	4M FY2021 (provisional)
Operating Income (Rs. crore)	177.06	194.52	50.03
PAT (Rs. crore)	23.61	28.53	7.50
OPBDIT/ OI (%)	27.87%	29.04%	30.28%
PAT/ OI (%)	13.34%	14.67%	14.99%
Total Outside Liabilities/Tangible Net Worth (times)	0.79	0.73	-
Total Debt/OPBDIT (times)	1.16	1.07	-
Interest Coverage (times)	8.62	8.74	13.26

Status of non-cooperation with previous CRA

CRA	Status	Date of release
CRISIL	CRISIL B+/FB+/Stable/CRISIL A4 (ISSUER NOT COOPERATING)	October 30, 2019

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
					7-Oct-2020	28-Jan-2020	8-Jan-2019	27-Nov-2017
1	Cash Credit	Long Term	32.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Working Capital Demand Loan ¹	Long Term	(18.00)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Foreign Currency Demand Loan ¹	Long Term	(7.00)	-	[ICRA]BBB (Stable)	-	-	-
4	Bank Guarantee	Short Term	46.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
5	Letter of Credit ¹	Short Term	(7.00)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
6	Unallocated Limits	Long Term/ Short Term	47.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

Amount in Rs. crore

¹Sublimit of Cash Credit/Bank Guarantee

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 No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit – 1	-	-	-	14.00	[ICRA]BBB (Stable)
NA	Cash Credit – 2	-	-	-	5.00	[ICRA]BBB (Stable)
NA	Cash Credit – 3	-	-	-	9.00	[ICRA]BBB (Stable)
NA	Cash Credit – 4	-	-	-	4.00	[ICRA]BBB (Stable)
NA	Working Capital Demand Loan – 1 ¹	-	-	-	(11.00)	[ICRA]BBB (Stable)
NA	Working Capital Demand Loan – 2 ¹	-	-	-	(7.00)	[ICRA]BBB (Stable)
NA	Foreign Currency Demand Loan ¹	-	-	-	(7.00)	[ICRA]A3+
NA	Bank Guarantee – 1	-	-	-	13.00	[ICRA]A3+
NA	Bank Guarantee – 2	-	-	-	22.00	[ICRA]A3+
NA	Bank Guarantee – 3	-	-	-	5.00	[ICRA]A3+
NA	Bank Guarantee – 4	-	-	-	6.00	[ICRA]A3+
NA	Letter of Credit – 1 ²	-	-	-	(4.00)	[ICRA]A3+
NA	Letter of Credit – 2 ¹	-	-	-	(3.00)	[ICRA]A3+
NA	Unallocated Limits	-	-	-	47.00	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Maheshwari Mining Private Limited

¹Sublimit of Cash Credit

²Sublimit of Bank Guarantee

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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