December 22, 2022

EICL Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	17.79	3.74	[ICRA]BBB+(Negative); Reaffirmed
Fund Based Limits	40.00	30.00	[ICRA]BBB+(Negative)/ [ICRA]A2; Reaffirmed
Non Fund-Based Facilities	7.50	7.50	[ICRA]A2; Reaffirmed
Unallocated Limits	2.21	10.00	[ICRA]BBB+(Negative)/ [ICRA]A2; Reaffirmed
Total	**67.50**	**51.24**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the established market position of EICL Limited (EICL) in the domestic processed clay market, its diversified customer base across various industries and healthy financial flexibility as part of the Karan Thapar Group. With over 50 years of developing kaolin-based hydrous and calcined solutions, EICL has enjoyed a dominant market share in the domestic clay market over the years. The company caters to a reputed client base, spanning industries as varied as paper, paint, rubber, ink, tyres, etc, of which the paint and paper industries constituted ~87% of the company's revenues in FY2022. Although 62-66% of the company's revenue is driven by its top eight customers, many of them are market leaders in their respective sectors, and EICL has enjoyed established relationships with them over the years. EICL's business profile is also supported by captive mines, which ensures availability of quality and cost competitive raw materials and protection from any major volatility in raw material pricing.

Despite weak operational and financial performance over the last 2-3 years due to restrictions on the company's mining operations, the ratings draw comfort from the company's low debt repayments, going forward (term loans of ~Rs. 3.7 crore outstanding as on date), and an improvement in its liquidity position aided by sale of land at Shimoga (sale price of ~Rs. 50 crore). In addition, the company's market position in the domestic clay processing business, strong R&D capabilities, established relationships with customers, and captive mine reserves, are expected to help it improve its performance once the mining approvals are received for the remaining mines. Further, comfort is drawn from the financial support extended by the holding company (Karan Thapar Group) in the form of ICDs (Rs. 15 crore) and preference shares (Rs. 9 crore, on the books of the subsidiary) and expectation of ramp up in operations of its manufacturing unit at Bhuj, Gujarat, which will support the earnings and financial profile to an extent.

EICL's business remains exposed to regulatory restrictions over the mining of kaolin clay. Apart from any significant change in royalty rates, this can considerably impact the availability of raw material, affecting the company's scale of operations and profitability. The company's financial performance had weakened considerably during FY2020 and FY2021 following an order from the Hon'ble High Court of Kerala to discontinue mining operations and secure environment clearance (EC) and other regulatory approvals for its existing mining sites. While a resumption of mining at two mines and the consequent availability of cost competitive raw materials aided revenue growth in FY2022, the operations at the company's Kochuveli plant (Kerala) continue to remain suspended due to shortage of raw materials. Further, due to shortage of quality raw materials (in the absence of mining approval for the Veiloor mine), EICL's ability to offer niche, value-added products to its customers has been impacted, leading to reduction in capacity utilisation of the Thonnakkal plant and revenue decline of ~5% YoY to Rs. 63 crore in H1 FY2023. Increased fuel and chemical cost, low capacity utilisation and low realisation of the products from the Thonnakkal plant have resulted in operating losses in the current fiscal (Rs. 0.9 crore in H1 FY2023). ICRA will continue to monitor the progress in securing ECs for the remaining mines and resumption of operations at the Kochuveli plant, along with the impact of the same on EICL's financial risk profile.

The Negative outlook on the rating reflects ICRA's view that amid the regulatory issues pertaining to receipt of approvals for the remaining mines and the continued closure of the Kochuveli plant, EICL's earnings are likely to remain constrained till the approvals are received.

Key rating drivers and their description

Credit strengths

Financial flexibility as part of the Karan Thapar Group; experienced promoters and management team with over 30 years of business experience – EICL enjoys significant financial flexibility as part of the Karan Thapar Group, which has an established track record of managing diverse businesses such as industrial gear boxes, farm equipment, electric vehicles and automotive engines, among others, through companies such as Greaves Cotton Limited, Greaves Electric Mobility Private Limited and Premium Transmission Private Limited (rated [ICRA]A+ (Stable)/[ICRA]A1). The Group has extended financial support to EICL in the form of ICDs and preference shares over the last 2-3 years, as the latter's operations have remained impacted by restrictions on mining. In addition to the strong promoter group, EICL's management team has extensive experience in the clay mining and processing industry, thereby supporting its business prospects and operations.

Established player in the processed clay segment with strong client profile in the paint and paper industries – EICL has extensive experience in manufacturing varieties of processed clay. It has an established customer base of both direct clients as well as dealers and distributors, through which it caters to a reputed clientele across various industries, especially paper, paint and rubber.

Business profile supported by captive mining infrastructure and strong R&D capabilities – EICL sources its raw material from captive clay mines in Kerala, which ensures availability of quality raw material and protection from any major volatility in raw material prices. Collectively, these mines have adequate reserves for the next 15-20 years of operations at the steady state requirement of raw material of 6 lakh tonne p.a. The backward integration set up also aids in strong pricing power and margins. However, due to lack of ECs, the company's mining operations continue to remain suspended at some of the major mines, which has impacted the company's earnings. Apart from access to captive mines, EICL also has a strong R&D team, which continuously works on improving the product mix and producing value-added products.

Credit challenges

Significant deterioration in financial profile due to restrictions on mining operations – With its mining operations disrupted since October 2018, the company had to source raw materials externally at a much higher cost. As a result, EICL's earnings and debt coverage indicators were severely impacted in FY2020 and FY2021. With resumption of mining at two mines and the consequent availability of cost competitive raw materials, EICL's revenues grew by 26% YoY to Rs. 132.3 crore and OPM improved to 6.3% in FY2022. However, due to shortage of quality raw materials (in the absence of mining approval for the Veiloor mine), EICL's ability to offer niche, value-added products to its customers has been impacted, leading to reduction in capacity utilisation of the Thonnakkal plant in YTD FY2023. Increased fuel and chemical cost, low capacity utilisation and low realisation of the products from the Thonnakkal plant have resulted in operating losses in the current fiscal. Going forward, improvement in EICL's financial profile will depend upon receipt of mining approvals for the remaining mines, which remains monitorable.

Exposed to regulatory risk associated with clay mining industry – EICL remains exposed to regulatory risk associated with the clay mining industry. Its mining operations were disrupted following an order from the Hon'ble High Court of Kerala in October 2018, which directed EICL to stop mining pending compliance with certain conditions. Although two of the company's mines are currently operational, it is yet to receive ECs for most of its mines, which has constrained its production levels, leading to operating losses.

Liquidity position: Adequate

Even as the company's cash flows from operations are expected to remain impacted in the near-term due to restrictions on its mining, EICL's liquidity position is expected to remain adequate aided by buffer in working capital limits (average buffer of ~Rs. 3.8 crore in the fund-based working capital limits during the 8-month period ending in November 2022) and proceeds from sale of land (~Rs. 15 crore received in YTD FY2023; balance ~Rs. 35 crore expected to be received by the end of the fiscal). Against this, the company has debt repayments of Rs. 3.9 crore in H2 FY2023 and Rs. 0.9 crore in FY2024. While it has minimal capex requirements in FY2023, it may need to incur ~Rs. 8-10 crore in FY2024 for re-starting operations at its Veli plant. ICRA expects the company to meet its debt obligations and capex requirements from a mix of available lines of credit, proceeds from sale of land, unsecured loans from promoters and additional external borrowings.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade is unlikely in the near-term. ICRA could revise the outlook to Stable in case of a scale up in operations besides sustained improvement in profitability, credit metrics and liquidity position.

Negative factors – ICRA could downgrade EICL's rating in case of a deterioration in the financial and liquidity profile due to further delays in securing ECs, or any cessation of operations. Any impact on the company's operations or financial performance due to labour unrest could also exert downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EICL. As on March 31, 2022, the company had one subsidiary, Kaolin India Private Limited (KIPL), whose details are presented in Annexure 2.

About the company

EICL mines clay (kaolin) and manufactures processed clay, which find applications in various industries, especially in the paper and paint industries. The company's manufacturing plants are in Kerala with a combined production capacity of around 2,00,000 MT annually. EICL also has a manufacturing facility in Bhuj (Gujarat) through its 100% subsidiary, Kaolin India Pvt. Ltd. (KIPL), which started production from May 2021 and has a manufacturing capacity of ~42,000 MT p.a.

EICL enjoys established relationships with many of the leading paint and paper companies and derives its business strength from the availability of captive mines and regular investments in new product introduction. The company's captive mines are spread across five locations in Kerala. Following an order from the Hon'ble Kerala High Court, which placed certain conditions on mining, EICL's mining operations were suspended in October 2018, pending ECs. While the company had received the requisite approvals for two of its mines at Thonnakkal, Kerala, ECs for the rest of its mines are awaited.

Incorporated in November 1963, the company is a part of the Karan Thapar Group, which operates diverse businesses such as industrial gear boxes, farm equipment, electric vehicles, automotive engines and clay processing, among others, through companies such as Greaves Cotton Limited, Greaves Electric Mobility Pvt Limited (GEMPL, erstwhile Ampere Vehicles Private Limited), Premium Transmission Limited (rated [ICRA]A+ (Stable)/ A1) and EICL Limited. Karun Carpets Private Limited is the promoter company of EICL, holding 91.7% stake. EICL was a listed entity till FY2014, but later its shares were delisted.

Key financial indicators (audited)

EICL Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	105.2	132.3	63.0
PAT	-11.9	-21.6	-6.8
OPBDIT/OI	-0.4%	6.3%	-1.4%
PAT/OI	-11.3%	-16.3%	-10.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	-
Total debt/OPBDIT (times)	-105.4	6.3	-64.4
Interest coverage (times)	-0.1	1.3	-0.3

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

*Source: Company, ICRA Research; * Provisional numbers; All calculations are as per ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 15, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020		
					Dec 22, 2022	Dec 17, 2021	Mar 08, 2021 Aug 20, 2020	Jul 30, 2020	Dec 12, 2019	Sep 04, 2019
1	Term Loans	Long term	3.74	3.74	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A+ (Negative)
2	Fund Based Limits	Long term and short term	30.00	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A+ (Negative)/ [ICRA]A1
3	Non Fund-Based Facilities	Short term	7.50	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A1
4	Unallocated Limits	Long term and short term	10.00	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-	-	-
5	Commercial paper	Short term	-	-	-	-	-	[ICRA]A2; withdrawn	[ICRA]A2	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund Based Limits	Simple

Non Fund-Based Facilities	Very Simple
Unallocated Limits	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	**Term Loan-I**	December 2019	NA	February 2023	1.72	[ICRA]BBB+ (Negative)
NA	**Term Loan-II**	January 2021	NA	February 2025	2.02	[ICRA]BBB+ (Negative)
NA	**Fund Based Limits**	NA	NA	NA	30.00	[ICRA]BBB+ (Negative)/ [ICRA]A2
NA	**Non-Fund based Facilities**	NA	NA	NA	7.50	[ICRA]A2
NA	**Unallocated Limits**	NA	NA	NA	10.00	[ICRA]BBB+ (Negative)/ [ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	EICL Ownership	Consolidation Approach
EICL Limited	100.00% (rated entity)	Full Consolidation
Kaolin India Private Limited	100.00%	Full consolidation

Source: EICL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (EICL) and its subsidiary while assigning the ratings.

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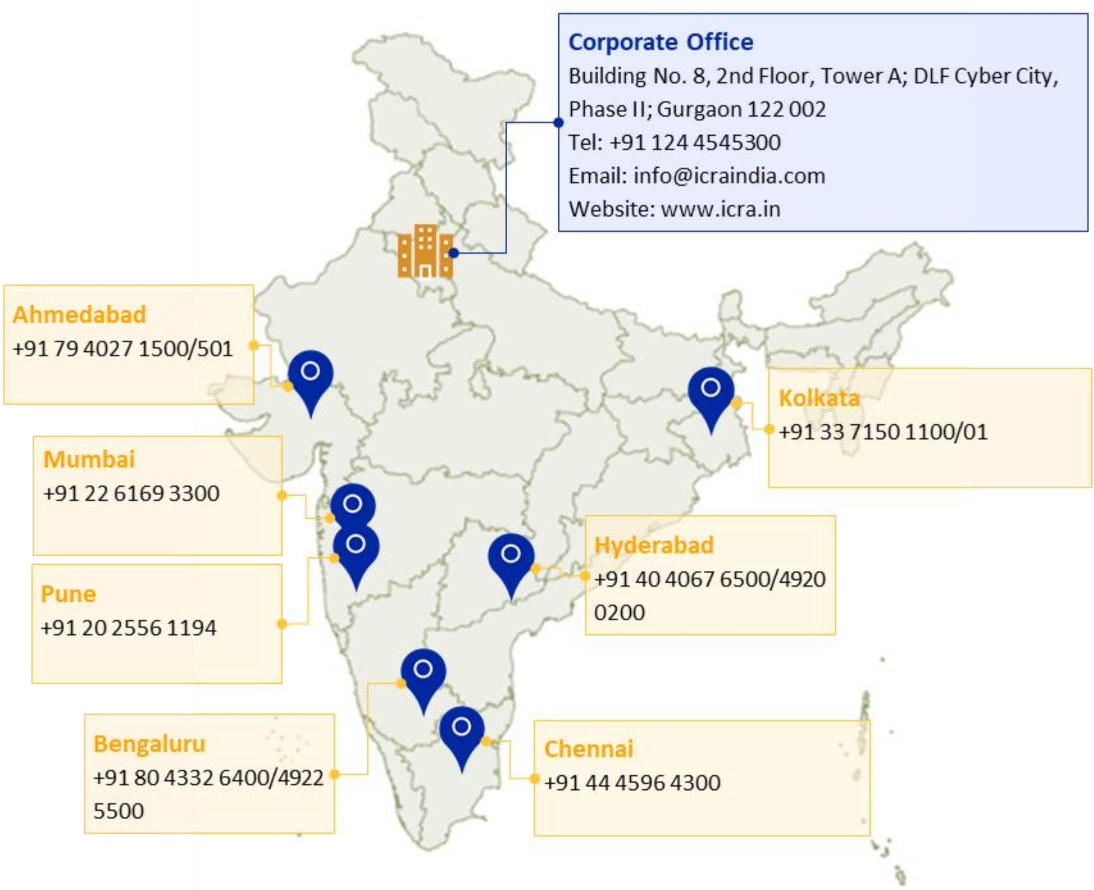

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