November 15, 2023

EICL Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	3.74	--	-
Long-term/ Short-term – Fund-based	30.00	32.50	[ICRA]BBB+/[ICRA]A2 reaffirmed; Outlook on long-term rating revised to Stable from Negative
Short-term – Non-fund based	7.50	5.00	[ICRA]A2 reaffirmed
Long-term/ Short-term – Unallocated	10.00	--	-
Total	**51.24**	**37.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on EICL Limited's (EICL) long-term rating factors in an expectation of steady earnings and credit metrics for EICL Limited, going forward, despite the continued impact of regulatory issues pertaining to receipt of approvals for mining operations on its scale of operations. EICL has recorded an improvement in profitability in H1 FY2024, aided by improvement in realisations and cost efficiency measures, recording an operating profit of ~Rs. 8.0 crore. The improvement in profitability coupled with funds received from monetisation of certain land parcels owned by the company have aided in repaying most of its outstanding debts (including inter-corporate deposits, or ICDs, extended by promoters). An expectation of steady operational performance of EICL's Thonnakkal plant (Kerala) will help the entity maintain healthy credit metrics, going forward.

The ratings continue to factor in the established market position of EICL in the domestic processed clay sector, 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. 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 generated ~89% of its revenues in H1 FY2024. Although 51% 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 has also remained supported by captive mines, which ensure 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 have drawn comfort from EICL's healthy financial flexibility, wherein it received interim funding support from the promoters (Rs. 15 crore on EICL's books in FY2021, which was repaid in FY2023 after monetisation of its land parcels; and preference share capital of Rs. 9.0 crore on the books of its subsidiary) to help meet its loss funding requirements and repayment obligations. 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 improve its performance once the mining approvals are received for the remaining mines. An expectation of ramp up in operations of its subsidiary's manufacturing unit at Bhuj, Gujarat, is also expected to support the earnings 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 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 resumption of mining at two mines and the consequent availability of cost competitive raw materials aided revenue growth, operations at EICL'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 (Kerala), EICL's ability to offer niche, value-added products to its customers remains impacted to an extent, leading to reduction in capacity utilisation of the Thonnakkal plant. While increased fuel and chemical costs, low capacity utilisation and low realisation of products from the Thonnakkal plant resulted in operating losses of Rs. 1.3 crore in FY2023, the same improved in H1 FY2024 with improvement in realisations and cost control measures. ICRA will continue to monitor the progress of the company in securing ECs for the remaining mines and resuming operations at the Kochuveli plant, along with the impact of the same on EICL's financial and operational risk profile.

ICRA notes that the company remains exposed to potential liabilities levied by regulatory authorities towards environment degradation for their existing mines. ICRA will continue to monitor any developments in this regard.

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]AA-(Stable)/[ICRA]A1+). The Group had extended financial support to EICL in the form of ICDs and preference shares over the last 2-3 years, as the latter's operations were 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 sector with strong client profile in paint and paper industries – EICL has extensive experience in manufacturing a variety of processed clay. It has an established customer base of direct clients as well as dealers and distributors, through whom 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 company's backward integrated operations also aid in strong pricing power and margins. However, due to lack of ECs, EICL's mining operations continue to remain suspended at some of the major mines, impacting its earnings and revenues. Apart from access to captive mines, EICL also has a strong research and development (R&D) team for continuously improving the product mix and producing value-added products.

Credit challenges

Restrictions on mining operations continue to curtail scale of 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 over the past four years. While mining operations are running at two mines currently, the scale of operations continues to remain modest with revenues of Rs. 122.8 crore in FY2023 and Rs. 75.4 crore in H1 FY2024. 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 continues to remain impacted, leading to low capacity utilisation of the Thonnakkal plant in FY2023. Improvement in capacity utilisation and realisation of the products from the Thonnakkal plant have resulted in improvement in operating profits in H1 FY2024 after losses in FY2023. However, going forward, substantial 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

EICL's liquidity is expected to remain adequate, even as its cash flows from operations are expected to remain impacted in the near-term due to restrictions on mining activities. The liquidity position is supported by buffer in working capital limits (average buffer of ~Rs. 5.9 crore in the fund-based working capital limits during the 12-month period ending in September 2023), while proceeds of a further ~Rs. 22.0-25.0 crore from the sale of land are expected to be received by the end of the fiscal. Against this, the company does not have any external debt repayments. While it has minimal capex requirements in FY2024, it may need to incur ~Rs. 5-7 crore in FY2024 for restarting operations at its Veli plant (Kerala) in addition to maintenance capex, which is subject to receipt of approvals. The company is expected to meet its capex requirements from a mix of available lines of credit, proceeds from sale of land and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is material improvement in scale of operations besides sustained improvement in profitability, credit metrics and liquidity position. Timely receipt of approvals for reopening its mines, supported by improvement in demand and realisations will further support the rating upgrade.

Negative factors – ICRA could downgrade EICL's rating in case of material deterioration in its financial and liquidity profile due to further delays in securing ECs, or any cessation of operations. Any sustained 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 Limited. As on March 31, 2023, the company had one subsidiary, which is enlisted in Annexure-II.

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 Private Limited (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 (erstwhile Ampere Vehicles Private Limited), Premium Transmission Limited (rated [ICRA]AA-(Stable)/[ICRA]A1+) and EICL Limited. Karun Carpets Private Limited is the promoter company of EICL, holding 91.7% stake in it. EICL was a listed entity till FY2014, but its shares were eventually delisted.

Key financial indicators

EICL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	132.3	122.8	75.4
PAT	-21.6	-3.4	4.2
OPBDIT/OI	6.3%	-1.0%	10.9%
PAT/OI	-16.3%	-2.8%	5.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.5
Total debt/OPBDIT (times)	6.3	-32.3	1.7
Interest coverage (times)	1.3	-0.2	3.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Provisional for H1 FY2024**

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 o/s as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021	
					Nov 15, 2023	Dec 22, 2022	Dec 17, 2021	Mar 08, 2021 Aug 20, 2020	Jul 30, 2020
1	**Term loans**	Long terms	-	-	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	**Fund-based bank facilities**	Long term / short term	32.50	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
3	**Non fund based facilities**	Short term	5.00	-	**[ICRA]A2**	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	**Unallocated limits**	Long term / Short term	-	-	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
5	**Commercial paper**	Short term	-	-	-	-	-	-	[ICRA]A2; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based working capital	Simple
Short -term – Non fund based facilities	Very simple

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	**Fund-based limits**	NA	NA	NA	32.50	[ICRA]BBB+(Stable)/[ICRA]A2
NA	**Non-fund based limits**	NA	NA	NA	5.00	[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 FY2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Akshay Dangi
+91 124 4545396
akshay.dangi@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:

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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

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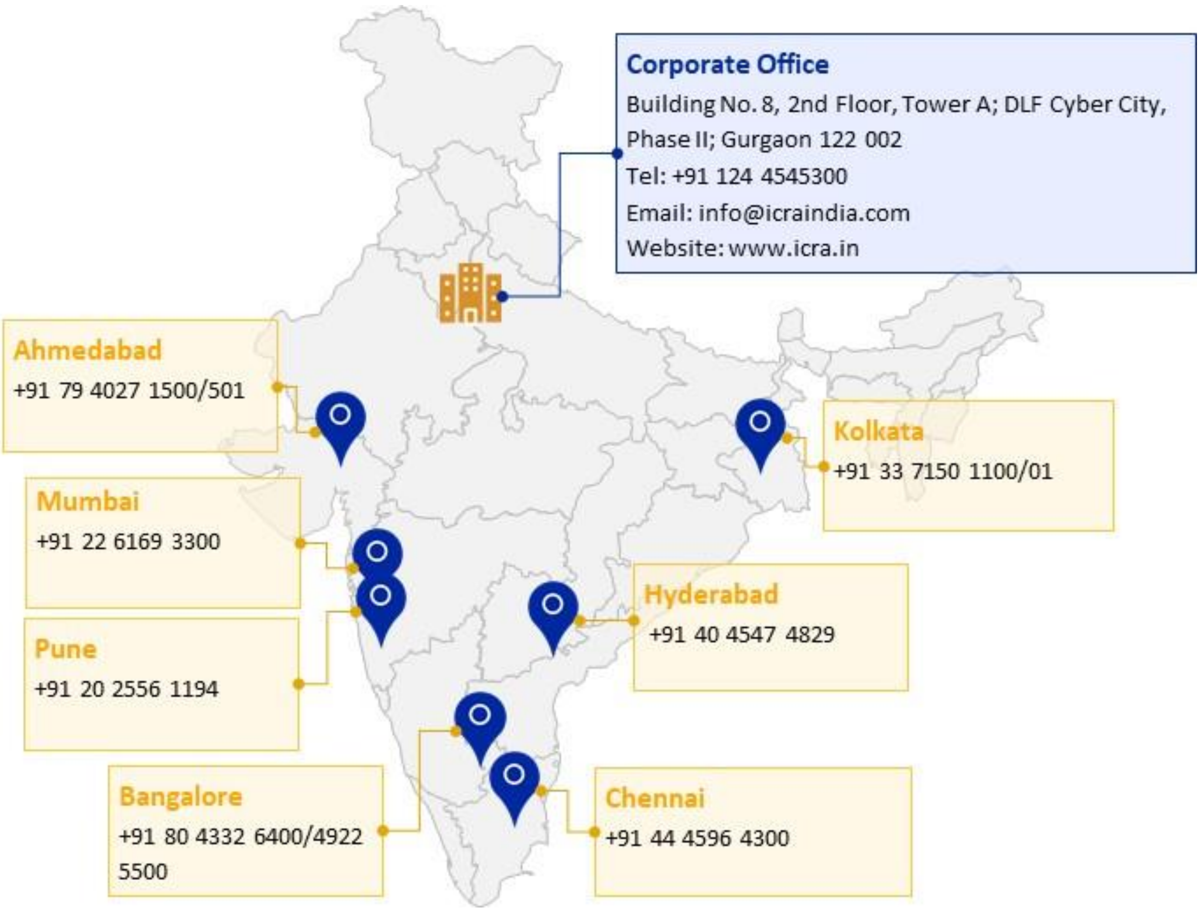

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