

February 14, 2020

## Brahmani River Pellets Limited: [ICRA]A- (Stable) assigned

### Summary of rating action

| Instrument <sup>^</sup>            | Current Rated Amount<br>(Rs. crore) | Rating Action               |
|------------------------------------|-------------------------------------|-----------------------------|
| Proposed term loan                 | 250.00                              | [ICRA]A- (Stable); assigned |
| Long term fund based – Cash credit | 300.00                              | [ICRA]A- (Stable); assigned |
| Long-term non-fund based           | 100.00                              | [ICRA]A- (Stable); assigned |
| <b>Total</b>                       | <b>650.00</b>                       |                             |

<sup>^</sup>Instrument details are provided in Annexure-1

### Rationale

The assigned rating takes into consideration the status of Brahmani River Pellets Limited (BRPL) as one of the largest merchant pellet manufacturers in India with a capacity of 4.7 million tonnes per annum (mtpa) for the beneficiation plant and a capacity of 4 mtpa for the pellet plant. The company also has healthy presence in export market and accounted for 26% of India's total pellet exports in FY2019. The rating also takes into account the favourable operating profile of BRPL with the presence of a 230-km long slurry pipeline, which connects its beneficiation plant in iron ore rich Barbil region to pellet plant at Jajpur in Odisha, and results in significant freight cost savings. The rating also factors in BRPL's healthy financial risk profile owing to comfortable capital structure and healthy profitability. While the gearing remained low at 0.5 times as on September 30, 2019, the operating profitability remained healthy at 25.9% during H1 FY2020. The company also enjoys location-specific advantages due to the proximity of its beneficiation plant to iron ore mines and that of the pellet plant to steel mills and ports. BRPL is a joint venture (JV) between JSW Techno Projects Management Limited (JTPML; 49% shareholding in BRPL), Thriveni Pellets Private Limited (TPPL; 49%) and Mitsun Steel Private Limited (MSPL; 2%). The rating draws comfort from the extensive experience of the Thriveni group in iron ore mining business and that of the JSW group in steel sector.

The rating, however, is constrained by the limited upside to revenues and profitability since the shareholders purchase pellets from BRPL by paying a fixed margin over and above the cost of production as per the pellet offtake agreement (POA) between the shareholders and BRPL. At present, only domestic sales are routed through the shareholders. From April 1, 2020 onward, the shareholders would offtake the entire output of BRPL, which in turn would expose BRPL to sales concentration risks. ICRA also notes that BRPL's pellet offtake is exposed to cyclicity in steel sector, which would keep its cashflows volatile. The rating also takes into account BRPL's exposure to risks associated with availability of iron ore, as the benefits of slurry pipeline would remain contingent on the company's ability to secure raw material supply from Barbil.

The stable outlook on the [ICRA]A- rating reflects ICRA's expectation that BRPL would benefit from its association with the JSW group, which is one of the largest steel producers in India and the Thriveni group, which has extensive experience in mining operations in Odisha.

## Key rating drivers and their description

### Credit strengths

**Favourable operating profile and location-specific advantages** – BRPL operates a 4.7-mtpa beneficiation plant at Barbil and a 4-mtpa pellet plant at Jajpur. The beneficiation plant is strategically located at Tanto, Barbil, which is surrounded by iron ore mines. BRPL currently procures iron ore fines from mines located within a radius of 25 km. The beneficiation and pellet plants are connected by a 230-km long underground slurry pipeline, which reduces the freight costs significantly. The pellet plant is located at Kalinganagar Industrial Complex, which is the steel hub of Eastern India, and is located close to the east coast of India, which facilitates both export and coastal shipping of pellets. Paradeep Port is 125 km away, Dhamra Port is 135 km away and Gopalpur Port is 257 km away from the pellet plant.

**Status as one of the largest merchant pellet manufacturers in India** – BRPL is one of the largest merchant pellet manufacturers in India. Its pellet production stood at 3.2 mt and 1.7 mt in FY2019 and H1 FY2020 respectively. The company has healthy export presence (share of 85% in total sales) and contributed 26% to India's overall pellet exports in FY2019.

**Healthy financial risk profile** – BRPL reported a healthy rise in pellet sales volumes from 1.2 mt in FY2016 to 3.2 mt in FY2019 resulting an increase in revenues from Rs. 451.0 crore to Rs. 2204.1 crore during this period. Improved capacity utilisation levels coupled with increase in pellet realisations resulted in healthy operating margin, which stood at 23.1% in FY2019 as against 2.7% in FY2016. During H1 FY2020, the revenue and operating profitability stood at Rs. 1288.1 crore and 25.9% respectively. BRPL's debt as on September 30, 2019 comprised shareholder loans of Rs. 450 crore. Going forward, while the debt levels are likely to rise in the near term following part-refinancing of shareholder loans and additional working capital for stocking of iron ore fines, the capital structure is expected to remain comfortable on the back of healthy accretion to reserves.

**Extensive experience of current shareholders** – BRPL is a JV between JTPML (part of the JSW group), TPPL (part of the Thriveni group) and MSPL. While the JSW group is one of the largest steel producers in India, the Thriveni group has extensive experience in mining operations in Odisha.

### Credit challenges

**Limited upside to revenues and profitability** – BRPL was acquired by JTPML, TPPL and MSPL in February 2018. These shareholders purchase pellets from BRPL under the POA, wherein they pay a fixed margin over and above the cost of production (which also includes finance cost and normal maintenance capex). While only domestic pellet sales are routed through the shareholders under the POA at present, the entire output would be sold through them from April 2020 onward as confirmed by the BRPL management. The capping of profit would limit BRPL's upside to revenues and profitability going forward.

**Exposure to risk associated with availability of iron ore** – BRPL currently procures iron ore fines from mines in Barbil. The company's annual fines requirement is close to 5 mt at 100% utilisation level. Given that the mining lease of 18 iron ore mines in Odisha with an approved Environment Clearance (EC) production limit of about 80 mt annually is expiring in March 2020, any major disruption in supply of iron ore fines would remain a key credit monitorable. Also, the benefits of slurry pipeline remain contingent on the company's ability to secure raw material supply from Barbil.

**Exposure to cyclicity in steel sector**– Iron ore pellet is used as an input in steel manufacturing process. BRPL, like other pellet manufacturers, is exposed to the cyclicity inherent in steel sector. A prolonged downturn in steel industry could put pressure on BRPL’s capacity utilisation levels and impact its cashflows. ICRA also notes that the company’s entire output would be sold to only two customers viz. JTPML and TPPL from FY2021, thereby exposing it to sales concentration risk.

### Liquidity position: Adequate

BRPL’s liquidity position remains adequate supported by healthy cash generation from the business. The company had outstanding loans of Rs. 450 crore from the shareholders as on September 30, 2019. It is planning to utilise its free cash balance of Rs. 212.3 crore as on September 30, 2019, towards part-repayment of the shareholder loans. The balance is proposed to be refinanced through a longer tenure term loan by March 2020. The company has capex plan of Rs. 90 crore in FY2020 and Rs. 70 crore in FY2021, which would be funded through internal accruals. Also, healthy financial flexibility enjoyed by BRPL’s shareholders lends comfort to the overall liquidity profile.

### Rating sensitivities

**Positive triggers** – ICRA may upgrade BRPL’s rating in case of any major upward revision in profit cap in the pellet offtake agreement, and/or if its interest coverage remains above 5 times on a sustained basis.

**Negative triggers** – Debt-to-operating profit ratio remaining above 2.5 time on a sustained basis could result in a downward revision in rating.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Entities in the Ferrous Metals Industry</a> |
| Parent/Group Support            | Not applicable   |
| Consolidation / Standalone      | Standalone   |

### About the company

Brahmani River Pellets Limited was incorporated in 2006 by Stemcor India Private Limited (SIPL), a wholly owned subsidiary of Stemcor Group, UK. The company was later transferred to Aryan Mining and Trading Corporation Private Limited (Aryan Mining). BRPL has a 4.7-mtpa iron ore beneficiation plant in Barbil, Odisha and a 4-mtpa pellet plant at Kalinganagar Industrial Complex in Jajpur, Odisha. The two units are connected via a 230-km slurry pipeline to transport iron ore concentrate from beneficiation plant to pellet plant.

BRPL started commercial production in June 2013. However, in FY2016 and FY2017, weak pellet demand and drop in realisations led to loss-making operations in those two years. On December 15, 2017, Thriveni Pellets Private Limited (TPPL), a 51% subsidiary of Thriveni Earthmovers Private Limited (TEPL), JSW Techno Projects Management Limited (JTPML), a JSW Group company and Mitsun Steels Private Limited (MSPL) signed a binding Shareholders’ agreement to acquire BRPL in the ratio of 49:49:2 respectively from Aryan Mining. The company was taken over on

February 23, 2018 by the current management representing TPPL, JTPML and MSPL with TPPL having the management control.

As per the provisional financials for H1 FY2020, BRPL reported a profit after tax (PAT) Rs. 196.4 crore on an operating income of Rs. 1288.1 crore compared to a PAT of Rs. 237.4 crore on an operating income of Rs. 2204.1 crore in FY2019.

### Key financial indicators

| Standalone financials                                | FY2018 | FY2019 | H1 FY2020 (Prov.) |
|--|--------|--------|-------------------|
| Operating Income (Rs. crore)                         | 1446.8 | 2204.1 | 1288.1            |
| PAT (Rs. crore)                                      | 324.1  | 237.4  | 196.4             |
| OPBDIT/OI (%)  | 20.6%  | 23.1%  | 25.9%             |
| RoCE (%)   | 25.7%  | 37.0%  | 50.4%             |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.0    | 1.2    | 0.9               |
| Total Debt/OPBDIT (times)                            | 2.7    | 1.1    | 0.7               |
| Interest Coverage (times)                            | 2.6    | 9.5    | 17.8              |
| DSCR   | 2.3    | 3.5    | 4.1               |

*Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: BRPL*

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

### Any other information: None

### Rating history for last three years

|   | Instrument              | Current Rating (FY2020) |              |                    |                   | Rating History for the Past 3 Years |        |        |
|---|-------------------------|-------------------------|--------------|--------------------|-------------------|-------------------------------------|--------|--------|
|   |                         | Type                    | Amount Rated | Amount Outstanding | Rating            | FY2019                              | FY2018 | FY2017 |
|   |                         |                         |              |                    | 14-Feb-2020       |                                     |        |        |
| 1 | Proposed term loan      | Long term               | 250.00       | -                  | [ICRA]A- (Stable) | -                                   | -      | -      |
| 2 | Proposed cash credit    | Long term               | 300.00       | -                  | [ICRA]A- (Stable) | -                                   | -      | -      |
| 3 | Proposed Bank guarantee | Long term               | 100.00       | -                  | [ICRA]A- (Stable) | -                                   | -      | -      |

### 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 | Instrument Name         | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook  |
|------|-------------------------|-----------------------------|-------------|---------------|--------------------------|-----------------------------|
| NA   | Proposed term Loan      | -                           | -           | -             | 250.00                   | [ICRA]A- (Stable); assigned |
| NA   | Proposed cash credit    | -                           | -           | -             | 300.00                   | [ICRA]A- (Stable); assigned |
| NA   | Proposed Bank guarantee | -                           | -           | -             | 100.00                   | [ICRA]A- (Stable); assigned |

Source: BRPL

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