February 24, 2020

Essel Mining & Industries Limited: Short-term rating reaffirmed on commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,500.00	1,500.00	[ICRA]A1+ reaffirmed
Fund Based Limits	175.00	175.00	[ICRA]A1+ outstanding
Non-Fund Based Limits	45.00	45.00	[ICRA]A1+ outstanding
Total	**1,720.00**	**1,720.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Essel Mining & Industries Limited's (EMIL's) healthy profits and accruals in the last two fiscals, supported by the restart of the Jilling and Kasia iron ore mines, as well as the increase in Koira's EC[1] capacity from 4 million tonne per annum (mtpa) to 6 mtpa in the current fiscal. ICRA expects the iron ore mining business to report healthy profits in FY2021 as well, supported by the planned ramp-up of Koira's operations at its peak rated capacity, and likelihood of better iron ore realisations during the period. The rating reaffirmation also derives support from the diversified revenue streams and stable earnings generated from EMIL's non-iron ore mining businesses, which includes a renewable energy generation portfolio accumulating to 155-MW (140-MW[2] in EMIL and 15-MW in Palace Solar Energy Private Limited[3]), the coal mine developer and operator (MDO) businesses of the subsidiaries, Bhubaneshwari Coal Mining Limited[4] and Rajmahal Coal Mining Limited[5], and the noble-ferro alloy business of EMIL. These businesses are estimated to cumulatively generate around Rs. 340-crore of EBITDA[6] annually going forward, and with an underlying gross debt of just Rs. 262-crore outstanding against such businesses as on March 31, 2019, the surplus from EMIL's non-iron ore mining businesses would support the consolidated cash-flows of the company.

EMIL's Jilling and Kasia leases are scheduled to expire in March 2020, and the Koira lease is scheduled to expire in August 2021. EMIL has participated in the ongoing iron ore mining auctions in Odisha, but given the aggressive bids seen thus far, the company has not yet emerged as the winning bidder for any block, including its own Jilling[7] iron ore block. Consequently, revenue visibility from the iron ore mining business beyond August 2021 remains limited at present. As part of its future growth strategy, EMIL acquired a 1 mtpa under-construction iron ore beneficiation cum pelletisation plant of Pro Minerals Private Limited, through the NCLT[8] route, for a consideration of Rs. 279-crore. The plant is expected to start operations from end-March 2020, following which, it is expected to contribute Rs. 80-100-crore of EBITDA annually post full ramp-up of operations. Moreover, EMIL emerged as the lowest

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[1] Environmental clearance
[2] 5-MW is under operating lease in Rajasthan
[3] Step down subsidiary, with EMIL having a 74% equity holding through its wholly owned subsidiary
[4] 74% equity holding by EMIL
[5] 85% equity holding by EMIL
[6] Earnings before interest, tax, depreciation, amortization
[7] Jilling iron ore block has been won by Shyam Ore (Jharkhand) Pvt Ltd at a premium of 135%
[8] National Company Law Tribunal

bidder for a mining MDO for the 5.4 mtpa Madanpur – South coal block, allotted to Andhra Pradesh Mineral Development Corporation Limited. In addition, EMIL has emerged as the winning bidder for the Bunder diamond project in Madhya Pradesh. ICRA notes that both the Madanpur - South and Bunder greenfield mining projects have long gestation periods and would entail sizeable capital outlay from FY2023. Consequently, EMIL's ability to seek requisite regulatory approvals, overcome challenges associated with land acquisition and R&R[9] activities, and arrange project funding, while maintaining healthy debt metrics would remain key rating drivers.

The rating derives comfort from the large investment portfolio of IGH Holdings Private Limited (IGH, wholly-owned subsidiary of EMIL) in various Aditya Birla Group entities. As on December 31, 2019, the market value of IGH's listed investments stood at Rs. 13,298-crore, making it a strategically important company of the Aditya Birla Group. As on March 31, 2019, IGH had a debt stock of Rs. 2,910-crore, and the returns generated from IGH's investment portfolio was lower than the interest burden on IGH's borrowings, leading to dependence on EMIL to bridge the gap. In the regard, ICRA notes that in February 2020, the Aditya Birla Group infused Rs. 1,090.8-crore equity in EMIL, which has been deployed to bring down IGH's borrowings from Rs. 2,910-crore (at the beginning of the current fiscal) to around Rs. 1,800-crore (at present). This is expected to reduce its dependence on EMIL is meeting the interest servicing shortfall.

On the regulatory front, the outcome of the legal process of the Supreme Court appointed Committee has absolved EMIL of any violation of Section 6 of the Mines and Minerals (Development and Regulation) Act, mitigating associated regulatory risks. As per expected lines, EMIL's consolidated debt protection metrics improved sharply in FY2019, with total debt/OPBITDA declining to 2.8 times in FY2019 from 7.7 times in FY2018. Supported by the healthy accruals from the mining business in FY2020 thus far, EMIL's consolidated debt declined to around Rs. 5,037.4-crore as on January 29, 2020 from Rs. 6154.3-crore as on March 31, 2019, registering a decline of around Rs. 1,117-crore. ICRA notes that EMIL has targeted iron ore deliveries of 5.6 mt in Q4 FY2020, against 8.8 mt achieved in the first three quarters of FY2020. With iron ore fines prices increasing by around 29% in early February 2020 compared to November 2019 levels, and with the promoters infusing Rs. 1,090.8-crore equity in early February 2020, consolidated debt levels are expected to further come down during the remaining two months of the current fiscal. EMIL will be left with the 6-mtpa Koira mine in FY2021. However, given the expected supply tightness during the process of change in ownership of the expired leases next fiscal, iron ore prices are likely to remain supportive during the period, which would aid in further paring down EMIL's debt levels in FY2021 as well.

The rating reflects EMIL's high dependence on short-term funding sources, exposing the company to refinancing risks. However, such risks are partly mitigated by the company's high financial flexibility, as demonstrated by its ability to arrange funds at competitive interest rates. Going forward, EMIL's ability to bring down the consolidated debt levels, its strategy to participate in future iron ore mine auctions, and its progress in the greenfield coal MDO and diamond mining projects remain key rating monitorables.

Key rating drivers and their description

Credit strengths

Status of EMIL as a part of the Aditya Birla Group - EMIL, a closely held company of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. Over the years, EMIL has made substantial investments in the Aditya Birla Group entities through its wholly-owned subsidiary, IGH. Given the sizeable quantum of its

[9] Rehabilitation and resettlement

investments, EMIL remains a strategically important company to the Aditya Birla Group, which supports the rating. ICRA notes that in FY2019, EMIL received an equity infusion of Rs. 1,446.7-crore mainly from promoter group entities to provide support to IGH to meet its business needs, and in FY2020, EMIL received further equity infusion of Rs. 1,090.8-crore to pare down the borrowing levels at IGH. ICRA expects such support from the Group to continue, should there be a need.

Significant improvement in financial performance in FY2019; likely to continue in FY2020 – EMIL's standalone EBITDA improved to Rs. 1,921.3-crore in FY2019 against Rs. 459.0-crore in FY2018. In the current fiscal, supported by the further ramp-up in production from Jilling and Koira, coupled with the restart from Kasia, EMIL reported an EBITDA of Rs. 1,351.0-crore in 9M FY2020 against Rs. 1,426.5-crore in 9M FY2019. However, with Jilling and Kasia leases expiring on March 31, 2020, ICRA expects EMIL's profits to drop in FY2021, and the downtrend is expected to continue in FY2022 as well following the expiry of the Koira mining lease.

High financial flexibility and comfortable liquidity profile derived from EMIL's large investment portfolio and its strong relationship with domestic banks – As on December 31, 2019, IGH had a liquid investment portfolio of Rs. 13,298-crore, comprising strategic shareholdings in various Aditya Birla Group entities. This imparts financial flexibility to EMIL, as indicated by its demonstrated ability to borrow at competitive interest rates. EMIL's consolidated capital structure remains conservative, as indicated by a consolidated gearing of 0.5 times as on March 31, 2019.

Low cost of mining operations, and high grade of its deposits with high iron content – Historically, EMIL's healthy profits generated from the mining business have been the source for funding other businesses of the Aditya Birla Group. The healthy profits from the mining business have been supported not only by EMIL's low cost of production, but also by the high grade of its iron ore deposits. The average Fe grade for EMIL's Koira mine remains in the range of 60-62% and that for the Jilling and Kasia mines remains in the range of 63-64%.

Diversified revenue streams and stable earnings from non-iron ore mining business - EMIL's earnings from the mining business remain volatile, being exposed to fluctuations in iron ore prices. However, EMIL's 155-MW renewable energy portfolio, noble ferro-alloy businesses, and two operating coal MDO operations would generate a stable annual EBITDA of around Rs. 340-crore, giving some stability to the consolidated earnings from the volatile cash flows of the iron ore mining business.

Credit challenges

Uncertainty over EMIL's iron ore mining business in the medium to long term - EMIL's lease validity for the Jilling and Kasia mines will expire on March 31, 2020 and the Koira mine will expire on August 21, 2021. In the context of the aggressive bidding seen by captive and merchant miners to acquire iron ore blocks, the future of EMIL's iron ore mining business in the medium to long term remains uncertain at the moment following the expiry of the existing leases.

Exposed to regulatory risks associated with the iron ore mining industry - EMIL remains exposed to regulatory risks associated with the iron ore mining industry in the country. ICRA notes that the order of the Hon'ble Supreme Court dated May 16, 2014 led to suspension of mining activities at various iron ore mines in Odisha, which were operating under the second or more deemed renewal clause, including the Jilling and the Kasia mines. Moreover, EMIL had to bear a compensation of Rs. 2,820-crore because of forest and environmental clearance violations after the August 2, 2017 order of the Apex Court, and a further Rs. 156-crore for non-compliance to mining plan/

consent to operate. However, the outcome of the legal process of the Court appointed Committee has absolved EMIL of any violation of Section 6 of the Mines and Minerals (Development and Regulation) Act, mitigating associated regulatory risks to an extent.

Sizeable short-term funding exposes the company to refinancing risks – As on January 29, 2020, EMIL had a consolidated short-term debt of Rs. 986.0-crore, which leads to a sizeable asset-liability mismatch, and exposes the company to refinancing risks. However, such risks are mitigated to an extent by the company's high financial flexibility, as demonstrated by its ability to raise funds at competitive rates, and its largely undrawn fund-based working capital bank lines of Rs. 175-crore.

Liquidity position: Adequate

EMIL's liquidity is **adequate**, supported by the healthy cash flows from the iron ore mining business. EMIL has a scheduled standalone long-term debt service requirement of Rs. 504-crore in FY2020, against which the company has already refinanced Rs. 325-crore between June and July, 2019. This leads to net long-term repayment burden of Rs. 179-crore for the remainder of FY2020, against which ICRA expects EMIL to generate standalone retained cash flows of Rs. 1,641-crore in FY2020, supported by a further ramp up of Jilling and Koira, and the restart of Kasia. The standalone budgeted capex for FY2020 stands at around Rs. 60-crore. Therefore, EMIL is expected to have standalone free cash flows of around Rs. 1,581-crore in FY2020, which can be utilised to prepay debt. The Koira mine is expected to operate at the peak rated capacity of 6-mtpa from FY2021, which coupled with supportive iron ore prices next fiscal is likely to lead to healthy free cash flows in FY2021 as well, helping further reduce EMIL's borrowings.

Rating sensitivities

Negative triggers – Negative pressure on EMIL's rating may arise if there is a significant deterioration in the company's debt protection metrics due to large debt-funded capex, sizeable incremental investment in group companies, and/or a drop in earnings.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology for Holding Companies
Parent/Group Support	Parent: Aditya Birla Group ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance that EMIL holds through the sizeable equity holdings of IGH in key businesses of the Group.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

EMIL, a closely-held entity of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. The company is also one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit in Gujarat and catering to the domestic special and alloy steel industries. EMIL also operates a 75-MW wind-power generation unit in Maharashtra. Additionally, the company has commissioned a solar power generation project of 27-MW under the Rajasthan State Solar Policy, and another 38-MW solar power generation project in Telengana. EMIL's 74% step-down subsidiary, Palace Solar Energy Private Limited, has a 15-MW operating solar power plant in Gujarat.

In FY2019, the company reported a consolidated net profit of Rs. 132.8-crore on an operating income of Rs. 4,527.6-crore, compared to a net loss of Rs. 3,334.6-crore on an operating income of Rs. 1,884.3-crore in the previous year.

Key financial indicators

	Standalone				**Consolidated**	
	FY2018 (Audited)	**FY2019 (Audited)**	**9M FY2020 (Provisional)**	**9M FY2019 (Provisional)**	**FY2018 (Audited)**	**FY2019 (Audited)**
Operating Income (Rs. crore)	932.8	3,472.6	2,895.6	2,555.1	1,884.3	4,527.6
PAT (Rs. crore)	-1,726.1	874.7	600.5	1,008.5	-3,334.6	132.8
OPBDIT/OI (%)	34.9%	52.7%	45.0%	53.6%	35.3%	48.6%
RoCE (%)	-23.1%	13.9%	-	-	-20.0%	6.6%
Total Debt/TNW (times)	0.5	0.3	-	-	0.4	0.5
Total Debt/OPBDIT (times)	10.6	1.7	-	-	7.7	2.8
Interest coverage (times)	2.0	6.7	7.4	6.6	2.0	4.2

Source: Annual Reports, Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past three years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018				
					24 Feb 2020	29 Jul 2019	31 Jul 2018	29 Mar 2018	09 Jan 2018	28 Dec 2017	09 Aug 2017	29 Jun 2017
1	Commercial Paper	ST	1500.0	250.0*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+
2	Fund Based Limits	ST	175.0	36.0*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+
3	Non-Fund Based Limits	ST	45.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+

*@'Under rating watch with negative implications'; *as on Jan 29, 2020; NA: Not Available*

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Chronology of Rating History for the past three years	
					Date & Rating in FY2017	
					21 Feb 2017	24 Aug 2016
1	Commercial Paper	ST	1500.0	250.0*	[ICRA]A1+	[ICRA]A1+
2	Fund Based Limits	ST	175.0	36.0*	[ICRA]A1+	[ICRA]A1+
3	Non-Fund Based Limits	ST	45.0	NA	[ICRA]A1+	[ICRA]A1+

**as on Jan 29, 2020; NA: Not Available*

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
INE077E14BQ9	Commercial Paper	22-Aug-19	7.27%	18-Feb-20	150.0	[ICRA]A1+
INE077E14BS5	Commercial Paper	23-Sep-19	7.20%	10-Mar-20	100.0	[ICRA]A1+
NA	Commercial Paper	Undrawn	-	-	1,250.0	[ICRA]A1+
NA	Fund Based Limits	NA	-	NA	175.0	[ICRA]A1+
NA	Non-Fund Based Limits	NA	-	-	45.0	[ICRA]A1+

Source: Company Data

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IGH Holdings Private Limited	100.0%	Full Consolidation
Bhubaneshwari Coal Mining Limited	74.0%	Full Consolidation
Rajmahal Coal Mining Limited	85.0%	Full Consolidation
Palace Solar Energy Limited	74.0%	Full Consolidation
Pro Minerals Private Limited	100.0%	Full Consolidation

Analyst Contacts

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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