Ambey Mining Private Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	67.00 (Reduced from 76.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	373.00 (Enhanced from 356.00)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Revised from CARE A1 (A One)
Total Bank Facilities	**440.00 (₹ Four Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in rating to the bank facilities of Ambey Mining Private Limited (AMPL) factors in satisfactory financial risk profile of the company in FY22 (refers to period April 01 to March 31) marked by y-o-y improvement in capital structure and debt coverage indicators on the back of reducing debt levels and accretion of profits. The scale of operations and profitability margins have witnessed moderation on account of slower project execution due to delay in handover of land from the principal. However, the same is expected to improve from FY24 onwards. The rating also derives comfort from the robust liquidity position of the company marked by surplus cash accruals, liquid cash and cash equivalents and unutilized lines of fund-based limits.

The rating continues, to derive strength from experienced promoters with long track record in mining industry, efficient maintenance of large fleet of equipment, reputed client profile backed by healthy order book position and presence of escalation clause in the contracts with customers. However, the rating is constrained by exposure in group companies, risk of delays in project execution amidst regulatory nature of mining industry and capital-intensive nature of business.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations and profitability marked by TOI above Rs.1,200 crore and beyond 24% on a sustained basis
- Sustenance of overall gearing and debt coverage indicators at current levels.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Substantial decline in the order book position
- Deterioration in overall gearing and TD/GCA above 0.75x and 1.80x respectively on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record in the area of mining

Ambey group has been engaged in business of coal excavation and transportation along with overburden removal for Coal India Ltd (CIL) and its subsidiaries for over three decades. Before AMPL came into existence in 2005, the promoters were engaged in mining and allied activities through various smaller entities. Currently, the day-to-day operations of the company are looked after by second generation entrepreneur Mr. Avishek Agarwal, Managing Director and Mr. Saurabh Gupta (CFO), having rich business experience of over a decade.

Maintenance of large fleet of heavy equipment

By virtue of being in operation for about a decade, the company has established a large fleet of heavy equipment enabling execution of large sized orders. Majority of the fleet is from reputed vendors like Volvo, Tata, Eicher, Caterpillar etc. This apart, AMPL has an in-house service/ maintenance center/ workshop for the periodic repairs and maintenance of its fleet.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Reputed client portfolio

AMPL's list of clientele includes reputed public undertakings as well as private players spread across various parts of the country. The company has established strong relationship with its clients with satisfactory order execution track record which helps AMPL in getting repeat orders. The clients of the company are reputed entities in their respective line of business.

Healthy order book position

AMPL's order book position as October 31, 2022 stood at Rs.2,414 crore (Rs.2,771 crore as on September 30, 2021), amounting to 3.61x of total sales in FY22. The orders comprised of a mix of coal mining and also other activities such as loading & transportation, leasing of equipment, removal of Over Burden (OB), etc. A significant portion of the order book is expected to be executed over a period of 2-5 years, hence providing revenue visibility over short to medium term. Repeat orders and additional work assignments in the form of allied activities in the existing contracts have contributed in strengthening order book of the company, indicating its satisfactory standing in the industry.

Escalation clause in contracts

The mining contracts mainly comprise income from excavation and evacuation services which are based on per tonne of coal evacuated; overburden removed and run over the period of contract. The major cost for AMPL for such services is the diesel cost for plying the equipment, thus exposing the company to volatility in diesel prices. While the diesel costs are pass-through in nature, there is generally a time-lag before the same can be built into the billing cycle. Further, the cost of labour which is another major cost has an escalation clause which is linked to WPI index. Majority of the contracts have escalation clause built into them.

Comfortable financial risk profile albeit moderation in financial performance in FY22

AMPL's scale of operation has moderated by 11% to Rs 669 crore in FY22 (Rs 755 crore in FY21), mainly due to slower execution of work orders on account of delay in relief and rehabilitation activities and delay in handover of land from the principals. However, it is expected that majority of these issues will be resolved by Q4FY23 which is expected to lead to improved total income from operations from FY24 onwards. The PBILDT margin has also deteriorated to 14.57% in FY22 as against 18.44% in FY21 on account of under absorption of fixed overheads and increase in power and fuel cost.

In H1FY23, the company has reported PBILDT of Rs 49 crore on total operating income (TOI) of Rs 288 crore as against Rs 47 crore on TOI of Rs 310 crore.

AMPL's capital structure has been satisfactory over the years. Overall gearing improved from 0.28x as on Mar'21 to 0.15x as on Mar'22 on account of repayment of term loans and accretion of profits to reserve coupled with nil year end working capital borrowings.

Key Rating Weaknesses

Exposure in group companies

AMPL also participates in tenders in partnership with other companies through SPVs in the form of subsidiaries, Joint Venture (JVs) and associates in order to meet the various eligibility criteria. This results in fund based and non-fund based exposure in such entities. As on March 31, 2022, the exposure in group companies (fund-based and non-fund based) accounted for 32% of AMPL's net-worth. In view of improvement in financial performance in two of its subsidiaries in FY22 as well as current financial year, the exposure is expected to reduce going forward.

Capital intensive nature of business

The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc.) for replacement purpose.

Risk of delay in project execution

AMPL's business is susceptible to financial loss arising out of delay in project execution or lower mining of coal, as generally there exists a penalty clause for delay/lower mining in contract execution. However, due to AMPL's long standing in the business with satisfactory project execution skills the company has not paid any penalty due to delay in execution or lower quantum of coal mined.

Regulatory risk in the mining sector

The mining environment in India has been highly uncertain with respect to issues like illegal mining and risk attached to mining activities of its client due to changes in government policies. However, as majority of the contracts for AMPL is from Public Sector Undertakings (PSUs), the risk is moderated to a large extent.

Industry Outlook

India's coal production for FY22 reached a new milestone of 777 Metric Tonne (MT) for the first time compared to 716 MT and 731 MT in FY21 and FY20, respectively. While the degrowth in FY21 was on account of the pandemic-induced lockdowns and lower than expected electricity and fuel demand, the high growth of 8.6 per cent in FY22 (on the lower base) was driven by the post-pandemic opening of the economy and induced demand for electricity and fuel. In Q1 FY23, domestic coal production reached 205.6 million tonnes (MT), registering a 32% growth over the same period in FY22, on account of the low base effect. In FY22 (April 2021–February 2022), coal imports saw a decline of around 7 per cent albeit lower base over FY21 (April 2020–February 2021) on account of high international prices led by the Covid-19 pandemic and the geopolitical tensions between Russia and Ukraine. During FY23 (up to May), the total coal imports declined by 1.8% over the same period in FY22, which is mainly on account of high international coal prices. The global benchmark (South African thermal coal) had crossed its all-time high price of around USD 200 per tonne (which was seen in October 2021) and peaked at around USD 300 per tonne in April 2022 before settling at USD 285 per ton in June 2022.

Driven by the improved domestic economic outlook and significant infrastructure development, demand for coal is expected to improve in FY23. Key end-use segments are expected to register strong growth and given the fact that domestic coal production rose at a high of 8.5 per cent FY22 over FY21, CareEdge estimates the domestic coal production to be in the range of 850 – 900 MT during FY23 with significant upside potential.

Liquidity: Strong

The liquidity position of the company is strong marked by gross cash accruals of Rs 83 crore in FY22 as against debt repayment of Rs 36 crore. The projected cash accruals are expected to be sufficient to meet the debt repayment obligations. This apart, AMPL has free cash and liquid investments to the tune of ~Rs 45 crore as on March 31, 2022 parked in FDs, cash credit accounts and current accounts. The liquidity is further supported by unutilized working capital limit of Rs 60 crore. Going forward, the liquidity position is expected to remain strong with declining debt repayments obligations and no major capex plans in the near future.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Ambey Mining Private Ltd (AMPL), part of the Ambey Group, was incorporated in 2005 and is engaged in carrying out contractual coal mining (open cast) for various public and private players across India. It also provides support activities for mining like site levelling, excavation, evacuation, surface mining, drilling & blasting, transportation of overburden and coal handling. The Ambey group has been involved in the area of coal loading and transportation for over three decades and was initially carrying out these activities for Coal India Ltd (CIL) and its subsidiaries. Over the years, the group has also started working for several reputed private companies across the industry. The Ambey group covers the value chain of the mining activities which includes mining, transportation and logistics services. The day-to-day operations of the company are looked after by Mr. Avishek Agarwal, Managing Director and Mr. Saurabh Gupta (CFO), having rich business experience of over a decade.

Brief Financials (₹ crore	FY21 (A)	FY22 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	755.15	669.48	288	NA
PBILDT	139.21	97.55	49	NA
PAT	59.32	35.07	17	NA
Overall gearing (times)	0.28	0.15	NA	NA
Interest coverage (times)	7.00	6.77	24.50	NA

A: Audited; UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	373.00	CARE A+; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Feb-22)	1)CARE A; Stable (16-Feb-21)	1)CARE A; Stable (11-Feb-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	373.00	CARE A+; Stable / CARE A1	-	1)CARE A1 (07-Feb-22)	1)CARE A1 (16-Feb-21)	1)CARE A1 (11-Feb-20)

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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