Thriveni Sainik Mining Private Limited

April 07, 2021

Rating

Facilities	Amount* (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	318.00 (Reduced from 319.00)	**CARE BBB+ (CE); Positive [Triple B Plus (Credit Enhancement); Outlook: Positive]**	Reaffirmed and removed from Credit watch with Developing Implications; Positive outlook assigned
Long Term / Short Term Bank Facilities	160.00 (Reduced from 170.00)	**CARE BBB+ (CE); Positive / CARE A2 (CE) [Triple B Plus (Credit Enhancement); Outlook: Positive / A Two (Credit Enhancement)]**	Reaffirmed and removed from Credit watch with Developing Implications; Positive outlook assigned
Total Facilities	**478.00 (Rs. Four Hundred Seventy-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

**backed by unconditional and irrevocable corporate guarantee by Thriveni Earthmovers Private Limited (TEPL) rated CARE BBB+; Positive/CARE A2*

Unsupported Rating *As stipulated vide SEBI circular dated June 13, 2019*
CARE BBB- / CARE A3 [Reaffirmed]

Detailed Rationale & Key Rating Drivers

The above rating assigned to bank facilities of Thriveni Sainik Mining Private Limited (TSMPL) is based on credit enhancement in the form of unconditional and irrevocable corporate guarantee by Thriveni Earthmovers Private Limited.

Detailed Rationale & Key Rating Drivers of CE Rating

The ratings assigned to the bank facilities of Thriveni Earthmovers Pvt Ltd (TEMPL) continues to derive comfort from experienced promoters and long track record of operations, differentiated acquisition and rebuild model of large fleet of owned heavy equipment that reduces capital intensity of mining services business significantly, reputed clientele, and satisfactory financial performance in FY20 (refers to the period April 1, 2019 to March 31, 2020) and 9MFY21 (refers to the period April 1 to December 31, 2020). The ratings, however, are constrained by reasonably high exposure to subsidiaries / Joint Venture (JV) albeit improvement witnessed in the recent performance of such companies including effective upstreaming of cashflows from some subsidiaries, capital intensive nature of business, perceived regulatory risk in the mining industry, emerging competition in mining services industry resulting in decreasing profitability margins, and dependence on cyclical iron and steel sector.

Outlook: Positive

Removal of '**credit watch with developing implications'** and assigning of '**Positive**' outlook factors in the new MDO contracts which the company has bagged from new Lessees post conclusion of recently held mining auction in Odisha leading to expected improvement in mining volume in the ensuing future and a large size coal mining contract from NTPC (for Talai-Palli block having reserve of 405 million tonnes) having peak annual production rate of around 18 Mn tonnes for close to 27 years. It also factors in the expected improvement in the profitability through sale of pellets sourced from its group entity viz. Brahmani River Pellets Limited (BRPL), inflows from Indonesian operation and Laserda Pacheri mine block.

Detailed Rationale & Key Rating Drivers of unsupported Rating

The rating assigned to the bank facilities of Thriveni Sainik Mining Private Limited factors in experience of promoters, long term contract with NTPC, moderate working capital cycle and increase in scale of operations and profitability during FY20 (refers to period from April 01- March 31). The ratings are, however constrained by moderation in financial risk profile, project implementation risk and regulatory risk in mining activity.

Rating Sensitivities-CE Rating

Positive: (Factors that could lead to positive rating action/upgrade)

- Ability to maintain PBILDT margin of more than 20% on a sustained basis in its MDO business.
- Improvement in debt coverage indicators with TD/GCA (<2.5x) and interest coverage (>4x) while maintaining overall gearing (<0.6x) on a sustained basis.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Negative: (Factors that could lead to negative rating action/downgrade)

- Deterioration in overall gearing (>unity) and debt coverage indicators i.e. TD/GCA (>6x) and interest coverage (<2.5x) on a sustained basis.
- Any significant debt laden capex/acquisition which is likely to result in significant deterioration of debt protection matrix.
- Delay in execution of mining work at Laserda Pacheri mine beyond FY23.

Detailed description of the key rating drivers -CE Rating

Key Rating Strengths

Experienced promoters and long track record of operations:

The promoters of TEMPL, Mr. P. Balasubramaniam (Ex-chairman), Mr. B. Prabhakaran (MD) and Mr. B. Karthikeyan (ED), started Mine Development and operations (MDO) operation for limestone in 1991 and over the years it has grown to be one of the dominant players in the iron ore mining (through TEMPL), and built a significant presence in open cast coal mining through its subsidiary JV Thriveni Sainik Mining Private Limited (TSMPL) and new contracts won from NTPC. TEMPL also owns commercial lease of aggregate quarry situated at Hosur, Tamil Nadu which is used for manufacturing sand (as opposed to river sand) which is environmentally friendly. This apart, TEMPL has controlling interest over a coal mine in Indonesia through a step-down subsidiary, PT Minemex Indonesia (PTM). TEMPL has also entered strategic partnership in 2019 with some of the largest coal mine owners in Indonesia to grow its business significantly in the future. Since 2018,it has also acquired, through its subsidiary Thriveni Pellets Private Limited (TPPL), ~25% stake in Brahmani River Pellets Private Limited (BRPL) which manufactures iron ore pellets and transports iron ore fines through a 212-km underground slurry pipeline in an environmentally friendly manner without burdening the already burdened road and rail infrastructure.

Differentiated heavy mining equipment acquisition and rebuild model

Currently the company possess more than 1600 heavy equipment, including some of the largest class of equipment available globally such as 240-280 Ton dumpers, 35-42 CuM Excavators/Loaders, and other supporting equipment etc. TEMPL purchases many of these second hand at the end of their life in their respective markets at a fraction of their original cost and rebuilds/refurbishes them in its state of the art rebuild centre in Jamshedpur for which it has developed an extensive local and international supply chain. This approach to equipment acquisition and rebuild/life extension has enabled the company to reduce capital intensity in the MDO business. Through this approach the Company is able to meet majority of its heavy equipment requirement in-house with significant spare capacity and the remaining (mostly smaller sized equipment) is hired on contractual basis.

Reputed Clientele

TEMPL has bagged new iron ore MDO contracts from the new lessees in the recently concluded mining auctions in Odisha, from some of the most reputed and established names in the iron and steel sector. It also has NTPC, APMDC, OMC in its client roster. In its iron ore pellet business, The company exports most of its pellet to reputed clientele across China, and other parts of the world. In the pellet business, it works with some of the biggest names in the trading/end consumer industry.

Satisfactory financial performance in FY20 & 9MFY21 and comfortable capital structure

TEMPL's total operating income (TOI) increased by 18% y-o-y in FY20 on account of increase in the iron ore mining volume coupled with escalation in the mining rates due to execution of some ancillary work for some of its clients. Accordingly, PBILDT level has increased from Rs.512.66 crore in FY19 to Rs.560.89 crore in FY20. Further, PAT levels of the company also improved to Rs. 88.41 crore in FY20 from Rs.57.09 crore in FY19.The interest coverage continued to remain comfortable at 3.40x in FY20 vis-a-vis 3.35x in FY19.

During 9MFY21, TEMPL earned Rs.90.25 crore on TOI of Rs.2,684 crore.

The capital structure and debt protection indicators of the company continued to remain comfortable with overall gearing and TD/GCA of 0.50x (P.Y.: 0.44x) and 2.70x (P.Y.: 2.52x) as on March 31, 2020. Out of total debt of Rs.331.32 crore outstanding as on March 31, 2021 from Aryan Mining Trading Company, Rs.236 crore has been treated as quasi-equity because the same will be converted into equity during FY22.

Key Rating Weaknesses

High exposure to subsidiaries / Joint Venture (JV) companies

TEMPL has a fund-based exposure of Rs.482 crore as on March 31, 2020 (Rs.564 crore as on March 31, 2019) in the form of investment & receivables to various group companies forming 30% of TNW as on same date. Additionally, the company has exposure in the form of corporate guarantee of Rs.479.30 as on March 31, 2020 extended to the lenders of TSMPL.

The company has somewhat mitigated the reasonably high financial exposure to its subsidiaries/JVs as it is able to capture significant operating cashflow and margins from some of its subsidiaries in the form of dry equipment rentals (through equipment leasing) from its subsidiary company viz. TSMPL, and commencing from end of FY20, through purchase and sale of pellets (sourced from BRPL) through a Pellet Offtake mechanism, thereby adding significantly to the turnover and profitability of the TEMPL. The Company is exploring further avenues to earn significant rental revenue in the future from its subsidiary companies by deploying its spare large mining equipment.

Financial performance of TEMPL at consolidated level continues to remain satisfactory with improvement in the profitability (Rs.542.7 crore of PAT in FY20 vis-à-vis PAT of Rs.390.4 crore in FY19) on a total operating income of Rs.6668 crore in FY20 (P.Y.: Rs.5669 crore).

Capital intensive nature of business

TEMPL's MDO operation is capital intensive in nature as it has to continuously incur capex for procuring heavy earthmoving and other mining equipment. Further, the company's MDO operation is also working capital intensive in nature due to requirement of maintenance of adequate stock of critical stores & spares for its heavy equipment many of which have a long lead procurement cycle and provide credit period of around 2 months to its customers.

However, as mentioned above, TEMPL reduces its capex requirement, to large extent, through its strategy of procuring large mining equipment from around the world at the end of their life in their respective markets and rebuilding them at its facility at Jamshedpur. TEMPL has also built an extensive local and international supply chain away from OEMs which has enabled to reduce cost of maintenance and inventory holding.

Regulatory risk in the mining industry

Although TEMPL is a service provider in the mining industry, the Indian mining industry is perceived to be highly regulated by the government of India; therefore, TEMPL's MDO business is indirectly exposed to the risk attached to abrupt change in government policy affecting the rights of lessees. However, this risk associated with the mining industry has been mitigated to a large extent after amendment in the Mines and Minerals (Development and Regulation) Act, 1957 in 2015 which has mandated that all the mining leases shall be granted through auction by competitive bidding, including e-auction as opposed to first come first serve principles which existed prior to the said amendment.

Emerging competition in Mining Services industry resulting in pressure on profitability margins

The profitability margins from the new MDO contracts, bagged by TEMPL from the new lessees post conclusion of recently held mining auction in Odisha, is reduced on account of lower mining rates in comparison to the earlier contracts. Decline in mining rates is largely on account competitive bidding invited by the new lessees for award of contracts which saw many small and large competitors, although partially offset from reduced scope of work and responsibility that the Company was undertaking on behalf of its erstwhile mine owners. Nevertheless, low profitability margin is expected to be compensated, to some extent, through higher mining volumes and optimal utilization of overhead resulting in stable profitability in the long run.

Dependence on iron and steel sector

As majority of the Company's MDO revenue currently is derived from iron ore mining, the prospects of the Company are dependent upon the iron and steel industry which is cyclical in nature. However, this risk is somewhat mitigated as it has diversified into other minerals such as coal, barytes etc. Further, as the Company's iron ore mining is largely concentrated in Odisha (and nearby Jharkhand) which are home to majority of high grade iron ore deposit in the country, any down turn in steel industry reducing demand is less likely to impact iron ore producers in Odisha/Jharkhand.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations coupled with moderate cash and cash equivalents of Rs.111.82 Cr.in FY20. Further, the company has got enhancement in the working capital limits to the tune of Rs.75 crore which will provide additional comfort to its liquidity. The company had availed moratorium from some of its lenders till Aug-2020 which was provided by the bankers as per RBI's COVID-19 regulatory relief package. However, post Aug-2020; company is servicing its debt repayment obligations as per schedule. Further, only interest due on working capital exposure with TMB and Yes Bank has been converted into FITL. Notwithstanding moratorium availed from some of its lenders, the company, during the Covid period, had prepaid its term debt obligations with Yes Bank and RBL Bank. Going forward, liquidity profile of the company is also expected to remain adequate as it is projected that company would generate sufficient GCA vis-à-vis committed debt repayment obligations of Rs.127 crore in FY22.

Analytical approach (CE Rating): Guarantor assessment on standalone basis after factoring in exposure in group companies.

Analytical approach (unsupported): Standalone

Applicable Criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Financial ratios-Non-Financial Sector
Liquidity analysis -Non-Financial Sector
Rating Methodology-Service Sector Companies
CARE's methodology for Factoring Linkages in Ratings
Criteria for Rating enhanced credit debt
Criteria for Short Term Instruments

About the Company- Thriveni Earthmovers Private Limited

Thriveni Earthmovers Pvt Ltd (TEMPL) was initially promoted by Sri P. Balasubramaniam as a partnership firm in 1991 which was later converted into private limited company in 1999. It is engaged in mine development and operations contract services of various minerals (i.e. iron ore, copper, coal, bauxite, barite ore, etc) for private mine lease owners. TEMPL is one of the largest mine developer and operator (MDO) of iron-ore in India. Since 2018, it has acquired a controlling stake (economic interest of ~25%) in BRPL which manufactures iron ore pellets and derives significant cost advantage from its underground slurry pipeline.

Brief financials (Rs. crore)	FY19	FY20
Total operating income	2167.56	2561.07
PBILDT	512.66	560.89
PAT	57.09	88.41
Overall gearing (times)	0.44	0.50
Interest coverage (times)	3.38	3.40

About the company – Thriveni Sainik Mining Private Limited

Thriveni Sainik Mining Private Limited (TSMPL) is a special purpose vehicle (SPV) promoted by Thriveni Earthmovers Private Private Limited and Sainik Mining and Allied Services Limited to undertake the work for development and operation of Pakri Barwadih Coal Mining Block (PB block) situated in the state of Jharkhand in District Hazaribagh. The work has been awarded by NTPC Limited. Currently, TEPL has 51% stake in the SPV and the remaining 49% is held by SMASL. As per the terms of agreement with NTPC, the company is entitled to get Rs. 785.72 per tonne of coal delivered for a period of 27 years (starting from 2015) till September 2042.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	683.94	1058.44
PBILDT	54.29	116.84
PAT	16.02	55.65
Overall gearing (times)	1.47	1.55
Interest coverage (times)	7.75	15.23

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2025	248.00	CARE BBB+ (CE); Positive
Fund-based - LT-Cash Credit	-	-	-	70.00	CARE BBB+ (CE); Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	160.00	CARE BBB+ (CE); Positive / CARE A2 (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB- / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings: Type	Current Ratings: Amount Outstanding (Rs. crore)	Current Ratings: Rating	Rating history: Date(s) & Rating(s) assigned in 2020-2021	Rating history: Date(s) & Rating(s) assigned in 2019-2020	Rating history: Date(s) & Rating(s) assigned in 2018-2019	Rating history: Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	248.00	CARE BBB+ (CE); Positive	-	1)CARE BBB+ (CE) (CWD) (26-Feb-20) 2)CARE BBB+ (CE); Positive (04-Jul-19)	1)CARE BBB+ (SO); Positive (08-Jan-19) 2)CARE BBB+ (SO); Stable (13-Jul-18) 3)CARE BBB+ (SO) (CWD) (04-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	70.00	CARE BBB+ (CE); Positive	-	1)CARE BBB+ (CE) (CWD) (26-Feb-20) 2)CARE BBB+ (CE); Positive (04-Jul-19)	1)CARE BBB+ (SO); Positive (08-Jan-19) 2)CARE BBB+ (SO); Stable (13-Jul-18) 3)CARE BBB+ (SO) (CWD) (04-Apr-18)	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	160.00	CARE BBB+ (CE); Positive / CARE A2 (CE)	-	1)CARE BBB+ (CE) / CARE A2 (CE) (CWD) (26-Feb-20) 2)CARE BBB+ (CE); Positive / CARE A2 (CE) (04-Jul-19)	1)CARE BBB+ (SO); Positive / CARE A2 (SO) (08-Jan-19) 2)CARE BBB+ (SO); Stable / CARE A2 (SO) (13-Jul-18) 3)CARE BBB+ (SO) / CARE A2 (SO) (CWD) (04-Apr-18)	-
4.	Term Loan-Long Term	-	-	-	-	1)CARE BBB+ (CE); Positive	-	-

						(03-Sep-19) 2)Provisional CARE BBB+ (CE); Positive (04-Jul-19)		
5.	Fund-based - LT-Cash Credit	-	-	-	-	1)CARE BBB+ (CE); Positive (03-Sep-19) 2)Provisional CARE BBB+ (CE); Positive (04-Jul-19)	-	-
6.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB- / CARE A3	-	1)CARE BBB- / CARE A3 (26-Feb-20)	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple
4.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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