

## Patnaik Minerals Private Limited

November 07, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	180.00	CARE A2 (A Two)	Reaffirmed
<b>Total Bank Facilities</b>	<b>180.00</b> <b>(₹ One Hundred Eighty Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Patnaik Minerals Private Limited (PMPL) continues to derive comfort from liquid investments (in the form of mutual funds) pledged against the rated facilities. The rating further draws strength from the experienced promoters with long track record of mining operations, strong liquidity position, satisfactory track record of windmill operations with adequate off-take arrangement in the form of Power Purchase Agreements (PPAs), satisfactory financial performance with improvement in FY22 and strong capital structure along with satisfactory debt protection metrics. The rating also considers successful commissioning and capacity utilisation of Manganese ore mine in FY21 (refers to the period April 1 to March 31) and Ferro Alloy Plant in FY22. The rating however remains constrained by regulatory risk in the mining sector, exposure of windmill business toward climatic condition and technology risk followed by risk of non-renewability of Power Purchase Agreements (PPAs) post expiry of the contracted tenure.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial Improvement in the scale of operations on sustained basis.

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in the value of pledged investment portfolio resulting in margin call by the lender.
- Weakening of financial risk profile indicated by gearing of over 0.50 times over the medium term.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoters with long track record of operations

Promoters of PMPL have been in the business of iron-ore mining since 1955 in the Joda-Barbil region of Keonjhar district in Odisha. Over the period, they have diversified into sponge iron manufacturing and wind power generation through windmills in Gujarat and Maharashtra. Currently, the company is into operations of Manganese ore along with a Ferro Alloy Plant. Further the day-to-day operations are looked after by Mr. S. K. Patnaik, who has more than three decades of experience in the mining sector.

##### Successful commissioning of Manganese and Iron-ore mine in Sundargarh district (Odisha)

Post expiry of mining lease license of Joda mines, PMPL participated in the bidding process and secured a manganese & iron ore mine for a period of 50 years (starting from April 01, 2020) at 92.7 per cent premium. The mine is spread over an area of nearly 400 ha with a current capacity of 40000 MTPA of manganese ore (estimated total reserve of 0.731 million tons) coupled with estimated iron-ore reserve of 32.81 million tons. The mining activities commenced in October 2020, initially with mining of manganese ore with around 100% extraction capacity utilisation in FY21 and FY22. Iron ore mining will commence only after required regulatory approval from the appropriate authority.

##### Satisfactory capacity utilization of newly setup Ferro Alloy Plant

PMPL has bought the ferro alloy plant from R.R. Energy Limited, at Raigarh and has started operation in October 2021. The company has produced 17755 MT of ferro alloy till March 31, 2022. Furthermore, the capacity utilization has improved beyond 100% and produced ferro alloy of 7905 MT during Q1FY23.

##### Comfortable Loan to Value (LTV) position with regards to liquid investments pledged against the rated facilities

The outstanding loan of Rs.180 cr. is backed by pledge of securities of ~Rs.430 crore (valued as on as on October 27, 2022) in the form of Mutual Funds/NCDs; thereby representing an LTV of 41.88%. As maintained by the lender, if the LTV (weighted average) exceeds 50%, the lender will give 2 days' notice to rectify the excess position by either partly / fully repaying the excess obligation or by getting an additional top up of securities.

<sup>1</sup>Complete definition of the ratings assigned are available at [HYPERLINK "http://www.careedge.in"](http://www.careedge.in) [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Track record of windmill operations with adequate off-take arrangement in the form of Power Purchase Agreements (PPAs)**

PMPL has been into wind power generation since 2007 with an aggregate installed capacity of 45.4 MW in Maharashtra and Gujarat. The company's performance improved from Rs 15 crores in FY21 to Rs.18 crores in FY22 majorly owing to improvement in wind speeds resulting in improved output from wind energy. The Company has long term PPAs with Gujarat Urja Vikas Nigam Limited (20 yrs.) for 30.4 MW at a contracted tariff (existing tariff) of Rs.3.37/kwh. Further, the company also has short term PPAs agreement with Maharashtra State Electricity Distribution Company Limited and Wipro Limited for 7.5 MW each at contracted tariff (existing tariff) of Rs.2.52/kwh and Rs.2.40/kwh respectively.

### **Satisfactory financial performance with improvement in FY22**

Total Operating Income (TOI) improved in FY22 to Rs.216.16 crore from Rs. 119.38 crore in FY21 mainly on the back of commencement of commercial operation of Ferro Alloy Plant. The PBILDT however moderated to Rs.33 crores in FY22 as against Rs.38 crores in FY21 owing to lower sales from mining activities. However, PBT improved from Rs.7.72 crores in FY21 to Rs.39.11 crores in FY22 majorly owing to improved income from investments in mutual funds and other liquid investments during the year.

### **Strong Capital Structure along with satisfactory debt protection metrics**

The capital structure of the company continued to remain strong in FY22 marked by overall gearing of 0.17x as on March 31, 2022 (P.Y.: 0.15x) on account of accumulation of surplus into reserve and minimal long-term debt on books. Furthermore, the debt coverage indicators also improved on account of increase in gross cash accruals during FY22 and the same stood satisfactory marked by interest coverage of 3.45x (FY21: 2.67x) and total debt to GCA of 5.67x (FY21: 6.41x) in FY22.

### **Key Rating Weaknesses**

#### **Regulatory risk with respect to mining**

PMPL remains exposed to regulatory risk associated with the mining sector in the country, further it remains governed by the Mining and Minerals act 1957. Hence any amendments over the medium term may apply to the operations of the company and may carry an impact on the overall risk profile.

#### **Risk of non-renewability of Power Purchase Agreements (PPAs) with regards to windmill business**

PMPL remains exposed to risk of non-renewability of PPAs post expiry of contracted period. PPA with Maharashtra State Discom is set expire in March 2022 and further the one with Gujarat Urja Vikas Nigam Limited also runs on a short-term basis, timely renewal of these contracts with remain closely monitored.

#### **Risks associated with variation in wind flow with regards to windmill operations**

Wind energy business, which constituted around 9% of PMPL's revenue in FY22 has the risk of technology and climatic conditions. PMPL's wind power operations are highly dependent on the availability of strong winds. A significant proportion of wind energy generation (around 70%) takes place between April to September (Peak Season). During the off-season stretching from October to March, wind generation dips significantly contributing the remaining 30% of the wind generation.

#### **Liquidity- Strong**

Strong liquidity is marked by sizable portfolio of liquid investment to the tune of Rs.942 crore as on 31st March 2022 in the form of mutual funds/NCDs/Shares (of which about Rs 400 crores is currently pledged with the bank). This apart, the company has estimated cash and bank balance of Rs 56 crore as on June 30, 2022.

Going forward, the liquidity position of the company is expected to remain strong as there is no debt repayment obligations in FY23 supported by sizeable investment.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria**

[Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Short Term Instruments](#)

#### **About the company**

Mr. Bansidhar Patnaik established M/s. B.D. Patnaik, a partnership firm, in 1955 to carry out the business of Iron Ore mining in the Joda-Barbil region of Keonjhar district in Orissa. With increase in scale of operation, the partnership firm was converted into a Private limited company in the year 1989 as Patnaik Minerals Private Limited (PMPL) and thereafter it diversified into sponge iron manufacturing (hived off in FY18) and wind power generation. Currently, PMPL is into business of manganese-ore mining having approved production capacity of 40,000 MTPA spread over 400 ha area in Sundargarh district of Odisha. Further the company also operates three windmills in Gujarat (30.4 MW) and Maharashtra (15 MW). The company in August 2021 also

commenced operations in its Ferro Plant, with a total output capacity of 30,000 MTPA for Silicon Manganese ore. The day-to-day affairs of the company are looked after by Mr. S. K. Patnaik (grandson of Mr. B.D. Patnaik) having experience of more than three decades in the mining segment.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (P)
Total operating income	119.38	216.16	71.74
PBILDT	38.24	32.74	14.84
PAT	73.48	-0.81	7.63
Overall gearing (times)	0.15	0.17	NA
Interest coverage (times)	2.67	3.45	NA

A: Audited, P: Provisional, 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 - ST-Bank Overdraft		-	-	-	180.00	CARE A2

#### 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 - ST-Bank Overdraft	ST	180.00	CARE A2	-	1)CARE A2 (21-Feb-22)	1)CARE A2 (05-Jan-21) 2)CARE A2 (02-Nov-20)	1)CARE A2 (05-Aug-19)

**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 - ST-Bank Overdraft	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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