Gujarat Mineral Development Corporation Limited

May 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	2,295.00	CARE AA+; Stable / CARE A1+	Assigned
Short-term bank facilities	5.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat Mineral Development Corporation Limited (GMDC) derive strength from its long track record of operations with dominant position in lignite mining business, diversified clientele across industries and favourable demand prospects. The ratings of GMDC also factor in its large net worth base, healthy profitability, comfortable debt coverage indicators and strong liquidity. The ratings also take into consideration the majority ownership by the Government of Gujarat (GoG) providing operational ease in its mining operations.

The ratings, however, remain constrained due to regulatory risk associated with mining operations, subdued performance of thermal power plants restricting the overall profitability and return indicators and competition from imported coal. The ratings also factor in the risk related to the coal mining operation where the company does not have any prior experience.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed increase in its scale of operations through greater geographical and product diversification.

Negative factors

- Dilution in the GoG equity stake to below 51%.
- Larger-than-envisaged debt-funded capex or acquisitions leading to an overall gearing of 0.15x and total debt to GCA ratio beyond 0.50x.
- Decline in available liquidity (i.e., investments in the form of inter-corporate deposits parked with Gujarat State Financial Services Limited) below ₹1,000 crore.
- Large-size capex plans intended for unrelated business, if any.

Analytical approach: **Consolidated**. The entities which are consolidated with GMDC is given in **Annexure-3.**

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that GMDC will continue to maintain its dominant market position in the lignite mining business with a healthy operating performance backed by sales volume growth.

Key strengths

Long track record of operations with dominant position in the lignite mining

GMDC is one of the public sector enterprises of the GoG, primarily engaged in mining and marketing of industrial minerals in the state. It has more than six decades of experience in the mining & minerals sector. It is India's largest merchant seller of lignite and the second-largest lignite-producing company in India. GMDC develops major mineral resources in the state of Gujarat. The major source of its revenue is the lignite mining which contributes around 85-90% of its total income from operations (TOI). GMDC caters to around 25% of Gujarat's total demand for lignite, which the company plans to take to 30-35% by FY25 (refers to period April 01 to March 31). GMDC is currently operating five lignite mines with estimated reserves of around 95 million tons (MT) and average life of mine is 12-14 years as on March 31, 2023. The company has been allotted six new lignite blocks having combined lignite reserves of around 360 MT. With allocation of new lignite mines, CARE Ratings believes that GMDC will continue to benefit from higher production and sales volume supported by steady demand from manufacturing industries located in Gujarat.

Diversified customer base across industries

GMDC has diversified customer base comprising small and medium-sized companies spread across textiles, steel, cement, power generation and various other sectors. GMDC sells its products either on advance basis or against Letter of Credit except for few of its customers i.e., state utilities (Gujarat State Electricity Corporation Ltd & Gujarat Urja Vikas Nigam Limited). The top ten customers of GMDC contributed around 16% and 13% of TOI during FY22 and 9MFY23 respectively, indicating diversified customer base which is likely to remain at similar level in future.

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

Implementation of dynamic pricing

Prior to August 2021, the board of directors was only authorized to revise the pricing of minerals, which was a time-consuming process. However, since August 2021, the board of director authorized the managing director to take necessary product price revision resulting into quick decision making in response to market dynamics. The company largely follows 15 days cycle for fixation of price, after considering the demand trends, and response from customers. The profitability of the company improved significantly post implementation of dynamic pricing i.e., Q3FY22 onwards. The profitability of the company was also supported by continuous rise in lignite prices followed by rise in imported coal prices. Going forward, the PBILDT margin is expected to remain around 30% which would be in-line with historical average of more than 10 years.

Quarterly sales and PBILDT

Particulars	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Net Sales (Rs. crore)	567	500	454	727	1,060	1,155	539	855
PBILDT (Rs. crore)	31	33	28	203	423	441	171	336
PBILDT Margin (%)	5%	7%	6%	28%	40%	38%	32%	39%

Healthy profitability and cash accruals

The financial performance of the company is characterized by healthy profitability, large cash accruals and cash flow from operations, lean operating cycle and negligible reliance on fund-based working capital limits. TOI of the company more than doubled in FY22 to ₹2,741 crore due to a significant increase in average sales realization of lignite owing to the sharp upward movement in international coal prices on the back of global demand-supply situation. Apart from average price increases of around 50% in lignite, the revenue growth was also supported by higher sales volume i.e., growth of 48% in volumes from 5.4 MT during FY21 to 8 MT in FY22. Due to COVID-19 led disruption, the production and sales volumes of the company were impacted in FY21. With the increase in average sales realization of lignite by around 50% during FY22 without corresponding increase in lignite extraction cost, the PBILDT (operating profitability) has significantly improved to ₹687 crore in FY22 with PBILDT margin of around 25%.

With the continuous increase in lignite and imported coal prices during 9MFY23, the PBILDT margin improved further to 37%. The average sales realization increased from ₹2,979/ton during FY22 to around ₹4,468/ton during 9MFY23. The sales volume during 9MFY23 was 5.02 MT, which is almost 10% lower on y-o-y basis mainly on account of occurrence of multiple landslides in Tadkeshwar mine during Q2FY23 & Q3FY23, affecting the mining operations. The company expects that it will take at least six months to resolve it. However, the company is likely to maintain a similar level of PBILDT margin during Q4FY23. On a full-year basis in FY23, the company is likely to achieve sales volume of around 6.5-7 MT with TOI of around ₹3,400 crore mainly driven by an increase in average sale realization of lignite.

The operating performance of the company is expected to normalize from Q1FY24 due to a downward trend in lignite prices owing to the sharp correction in international coal prices during H2FY23. During FY24, the sales volume is expected to improve by around 15-20% supported by restoration of Tadkeshwar mine by Q2FY24 and increase in production at Bhavnagar site by acquiring further land and engaging additional mining contractor at site.

Strong financial risk profile due to net debt-free company

GMDC does not have any outstanding term debt or fund-based working capital limits as on December 31, 2022. Furthermore, it is unlikely to avail major fund-based limits in the near to medium term and hence, the overall gearing ratio is expected to remain very comfortable as on March 31, 2023 and March 31, 2024. It is a net-debt free company with cash and liquid investments worth more than ₹2,500 crore as on March 31, 2022 which further increased to more than ₹2,900 crore as on September 30, 2022. The company's capex of ₹2,500 crore planned over the next two years (i.e., FY24 & FY25) is likely to be funded majorly through internal accruals with minimal reliance on term debt thereby maintaining a very comfortable debt profile.

Allocation of six new lignite and two coal blocks providing good revenue visibility

During the last 10 years, GMDC had produced between 7-11 MT of lignite annually. During FY22 and 9MFY23, the company produced and sold around 8.0 and 5.0 MT of lignite respectively. GMDC's existing mines have reserves of around 95 MT as on March 31, 2022. Out of the existing five mines, Rajpardy mine is expected to exhaust its reserves in FY24 and the Umarsar mine in the next 4-5 years. It is essential for the company to develop new mines as exhaustion of the Rajpardy mine is expected to have significant impact on the company's overall operations. The company is expected to add six new mines, leaving it with a total of nine mines in the next 4-5 years (with two out of five current mines reaching end of their life). These six new mines have around 360 MT of lignite reserves. The management expects to develop these six new mines over the next 1.5-2 years to ensure production remains above 10 MT per annum on a sustainable basis. During March 2023, the company got allocation of two coal blocks at Odisha which the company plans to develop over a period of four years in a phased manner. It is expected to achieve full mining capacity by the year 2027-28. However, coal output could be constrained due to delays in obtaining environmental and forest approvals and lack of adequate logistic infrastructure.

Plans to increase share of non-lignite minerals in its product portfolio

The management of GMDC intends to build-on its capabilities in other minerals and metals including Rare Earth Minerals (REMs). REMs are a set of 17 metallic elements, including 15 lanthanides, scandium, and yttrium. These REMs find usage in diverse high-tech applications from energy storage systems to aerospace and defense. These applications mostly include high-tech consumer products, such as cellular telephones, computer hard drives, electric and hybrid vehicles, flatscreen monitors and televisions. GMDC has these elements in Chhota Udepur district in Gujarat, and it is developing these metal assets for mining, processing, and marketing.

GMDC also has resources in bauxite, silica sand, fluorspar and limestone which find application across various industries like cement, agriculture, high-performance plastic, glassmaking etc. The bauxite mines are located in Kutch and Dwarka districts of Gujarat. Bauxite sales were 3.96 Lakh MT during FY22, 1.50 Lakh MT during 9MFY23 and the company expects to sell 8.80 Lakh MT of the bauxite during FY24. In addition, GMDC is aiming to explore and mine metals like manganese, copper, lead and zinc. GMDC is also exploring more manganese in Panchmahal district, Gujarat. To further expand its product portfolio, GMDC is developing capabilities for beneficiation of minerals like bauxite, silica and limestone as well as downstream integration into areas like cement manufacturing. Furthermore, GMDC is in the process of bidding for commercial coal and lignite block auctions outside the home state. The company aims to increase the share of revenue from non-lignite segment to around 50% in the medium term which currently contributes less than 15%.

Stable demand for lignite

Demand for lignite is expected to remain stable in the medium term, driven by demand from thermal power, textile, steel, cement, and other industries. Moreover, India is heavily dependent on imported coal which is a substitute for lignite. In order to reduce the dependency on import of coal, government is focusing on development of lignite and coal mines domestically. Furthermore, India's total lignite requirement remains at around 45-50 MT during FY19-FY23 while GMDC produces around 8-10 MT of lignite thereby providing ample opportunity to grow its sales volume.

Liquidity: Strong

GMDC has strong liquidity marked by its net-debt free status along with cash and liquid investments of over ₹2,500 crore as on March 31, 2022 which increased to over ₹2,900 crore as on September 30, 2022. Most of GoG-promoted entities park their surplus liquidity with Gujarat State Financial Services Limited (GSFS). GSFS is a GoG undertaking and is registered with RBI as a Non-Banking Financial Company (NBFC). GMDC has also parked its excess liquidity with GSFS, and it earns interest of 7% currently. The liquidity of the company is also supported by steady cash accruals and positive cash flow from operations. The company maintained a lean operating cycle of around 6-7 days during FY22 and is likely to remain at this level only due to its tight credit policy. The company plans to avail term debt of only ₹250 crore during FY24 for renovation of its thermal power plant. Against the proposed annual term debt obligations of around ₹50 crore, the company is likely to generate annual gross cash accruals (GCA) of around ₹1,000 crore thereby provides significant cushion in debt servicing. The company is likely to maintain unencumbered cash and liquid investments of more than ₹2,000 crore going forward which is expected to provide sufficient cushion to its liquidity.

Key weaknesses

Exposure to socio-political and regulatory risks

GMDC's operations are subject to regulatory risk. Any non-adherence to regulatory guidelines and laws may impact the operations of the company. Furthermore, as per Ministry of Coal, Government of India guidelines for mine closure plan, the company has to recognize liability for mine closure charges in respect of its operating lignite mines. GMDC works out estimated cost towards mine closure charges considering per hectare mine closure cost provided under the mine closure guidelines and deposit the same in the escrow account maintained with the scheduled bank in compliance with the government guidelines. Furthermore, any changes in royalty and National Mineral Exploration Trust (NMET) regulations could affect the comparable cost efficiency of lignite vis-à-vis other competing fuels.

Subdued operational performance of thermal power projects

GMDC operates a thermal power plant in Gujarat with an installed capacity of 250 MW. Due to low plant load factor (PLF) of the thermal power plant, it continued to incur losses from its thermal power business. The performance of thermal power plant was also impacted due to certain equipment defect like boilers and turbines. Despite having availability of captive lignite as fuel for the power plant, it continues to incur losses due to lower transfer price (i.e., ₹2.40 per unit) fixed by GoG for transfer of power to Gujarat Urja Vikas Nigam Limited (GUVNL) as per their power purchase agreement (PPA). However, the PPA has been revised recently wherein GMDC is allowed to charge cost plus 11% Return on Equity (ROE) for sale of power to GUVNL. This new rate is expected to be applicable from FY25. As per management, they have also received approval from GUVNL to incur capex of ₹300

crore for renovation of its thermal power plant. It is expected to incur a net loss of around ₹40-50 crore during FY24 while it is expected to turn profitable from FY25 onwards.
The renewable energy segment (i.e., solar & wind projects) is doing fairly well and generating good amount of profit on a consistent basis. The wind and solar power capacity of GMDC is 200.5 MW and 5 MW respectively. Steady cash flow generation from these renewable power generation capacity offsets the operational under-performance of thermal power plants to an extent.

Large-size investment plans
The company is planning to incur capital expenditure of around ₹2,500 crore over the next two years (i.e., FY24 & FY25) which is expected to be funded majorly from its internal accruals with very minimal reliance on term debt. Broadly, land acquisition is expected to entail nearly ₹1,500 crore of investment towards both brownfield projects and greenfield projects. Additionally, there is a planned capex of ₹600 crore in capital machinery out of which 50% is towards renovation of thermal power plant and remaining towards small beneficiation plants. The balance capex of about ₹400 crore pertains to routine capex i.e., for developing new colonies for assets, refurbishing dead assets etc. Towards the entire capex budget, the company plans to avail term debt of only ₹250 crore for the renovation of its thermal power plant. Such a large-size investment plan is expected to restrict free cash flow in medium term.

Environmental, Social and Governance (ESG) risks:

Factors	Compliance and action adopted by company
Environmental	The metal and mining sector has a significant impact on the environment owing to high greenhouse gas (GHG) emissions, waste generation and water consumption. This is because of its high dependence on natural resources such as lignite. However, presence of large renewable power capacity of GMDC off-sets the green-house emission to an extent. GMDC has implemented an effective Environment Management System with risk evaluation, monitoring and control mechanism and has been certified under ISO 14001. The company conducts several tasks for controlling pollution and protecting the environment. It carries out regular water sprinkling for dust suppression, installed, and operating electrostatic precipitators for stack emission control, sewage, and effluent treatment plants for the control of water pollution and regular noise / vibration measurement for controlling noise pollution from its machines. Under the statutory compliance, GMDC carries monthly environmental monitoring for air, water, and noise pollution.
Social	The sector has a significant social impact because of its large workforce across its operations and value chain partners, and also as its operations affect the local community and involve health hazards. The company has set-up dispensaries with qualified doctors and para-medical staff at Panandhro, Akrimota thermal power plant, Rajpardi and Kadipani projects. Mobile medical vans and healthcare facilities are also operational at some of the projects. Furthermore, GMDC provides safety shoes and other safety devices and adopts best safety practices at every single project site.
Governance	The governance structure is characterised by board comprising independent directors, split in chairman and MD positions, dedicated investor grievance redressal mechanism and healthy disclosures.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Minerals & Mining	Industrial Minerals

GMDC is promoted by GoG with 74% shareholding as on March 31, 2023. GMDC is primarily engaged in two businesses, i.e., mining and power generation. GMDC is involved in the exploration of opencast lignite, bauxite, fluorspar, manganese, silica sand, limestone, bentonite mines. The company operates lignite mines in the state of Gujarat, namely, Panandhro, Mata-No-Madh, Rajpardi, Tadkeshwar, Bhavnagar and Umarsar, of which Panandhro is exhausted. Other than lignite, GMDC also operates bauxite mines in Gujarat. The bauxite mines are located in districts of Kutch (eight mines) and Dwarka (one mine). GMDC's power generation division consists of lignite-based thermal power plant (250 MW), wind power plant (200.9 MW) and ground mounted solar power plant (5 MW).

(₹ crore)

Brief Financials – Consolidated	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	1,343	2,741	2,550
PBILDT	-6	687	947
PAT	-39	411	762
Overall gearing (times)	0.00	0.00	0.00
PBILDT Interest coverage (times)	NM	322.31	315.67

A: Audited; UA: Unaudited; NM: Not Meaningful; Note: 'the above results are latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of the various instruments rated: Annexure-5

Lender details: Annexure-6

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Bank Overdraft	-	-	-	-	5.00	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	2295.00	CARE AA+; 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 2023-2024	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ ST*	2295.00	CARE AA+; Stable / CARE A1+	-	-	-	-
2	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A1+	-	-	-	-

*Long term/Short term.

Annexure 3: List of entities consolidated:

Name of the company	Relationship	% Holding of GMDC
GMDC Science & Research Centre	Wholly-owned Subsidiary (WOS)	100%
Gujarat Mineral Research & Industrial Consultancy Society	WOS	100%
GMDC Gramya Vikas Trust	WOS	100%
Naini Coal Company Limited	Joint Venture	50%
Gujarat Foundation for Entrepreneurial Excellence	Joint Venture	50%

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of the various instruments rated

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

Annexure-6: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:

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