

Gujarat Mineral Development Corporation Limited (Revised)

August 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	3,993.00 (Reduced from 3,995.00)	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	7.00 (Enhanced from 5.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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

However, ratings remain constrained due to regulatory risk associated with mining operations, subdued performance of thermal power plants restricting overall profitability and competition from imported coal. Ratings also factor in the risk related to planned large-size capex partly for coal mining and metal mining operations where the company does not have prior experience.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing its scale of operations led by higher sales volumes and greater geographical and product diversification.

Negative factors

- Dilution in the equity stake of GoG to below 51%.
- Larger-than-envisaged debt-funded capex or acquisitions leading to an overall gearing of 0.15x and total debt to gross cash accrual (TD/GCA) ratio beyond 0.50x.
- Decline in the lignite production volume below 6-million-ton per annum (MTPA) leading to lower-than-envisaged profitability and cash-accruals.
- Large-size capex plans intended for unrelated business.

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) adopted the 'Consolidated' analytical approach for GMDC's ratings, considering the business linkages and common management of GMDC with its subsidiaries/JVs/Associate entities. Details of the same has been placed in Annexure-6.

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Long track record of operations with dominant position in lignite mining

GMDC is one of the GoG's public sector enterprises, primarily engaged in mining and marketing industrial minerals in the state. It has over six decades of experience in mining and minerals sector. It is India's largest merchant seller of lignite and second-largest lignite-producing company in India. GMDC develops major mineral resources in Gujarat. Major source of its revenue is lignite mining, which contributes ~85-90% of its total operating income (TOI). GMDC caters ~25% of Gujarat's total demand for lignite.

GMDC is currently operating five lignite mines with estimated reserves of ~87 million tons (MT) and average life of mines is 10-12 years as on March 31, 2024. The company has been allotted six new lignite blocks having combined lignite reserves of ~360 MT. GMDC expects to start commercial production from new mines from Q4FY26/FY27. 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 in Gujarat.

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

In June 2023, GoG appointed Hasmukh Adhia as a Chairman of the company's Board of Directors. Hasmukh Adhia is an Ex-Indian Administrative Service (IAS) officer of Gujarat cadre 1981 batch, who has worked as Union Finance Secretary and Revenue Secretary in Central Government. He is also Principal Advisor to Honourable Chief Minister of 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 other sectors. GMDC sells its products either on advance basis or against letter of credit (LC) except for few of its customers, state utilities (Gujarat State Electricity Corporation Limited and Gujarat Urja Vikas Nigam Limited). GMDC's top ten customers contributed ~25% of TOI in FY24, indicating diversified customer base, which is likely to remain at similar level in future.

Decline in profitability in FY24, despite profitability and cash accruals are expected to remain healthy

GMDC's operating profitability (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) was exceptionally high in FY23, considering rise in average sales realisation followed by sharp rise in steam coal prices. However, operating profit declined by 52% in FY24 on y-o-y basis majorly due to decline in average sales realisation of lignite apart from high base effect. International coal price declined in FY24, which also led to decline in lignite's market price. The profitability also impacted considering 16% decline in lignite sales volume in FY24 on y-o-y basis followed by lower production. Currently, GMDC follows dynamic pricing, where it revises lignite's price every 15 days after considering demand trends, steam coal's price and response from the customers.

A landslide in GMDC's Tadkeshwar mine (which historically contributed ~10% to 15% of production volumes) led to the mine's temporary closure and resulted in decline in production and sales volumes. Despite decline in sales realisation and lower absorption of fixed cost, PBILDT margin remained healthy at 25.97% in FY24 (FY23: 38.62% and FY22: 25.07%).

Tadkeshwar mine has been reopened in Q4FY24. GMDC is expanding its Bhavnagar mine by acquiring new lands to boost production. Furthermore, its six new lignite mines are expected to start commercial production from Q4FY26/FY27. The company's lignite sales volume grew by 26% in Q1FY25 on y-o-y basis to 2.3 MT. CARE Ratings expects GMDC to register lignite sales volume of over 8.0 MTPA in the near-to-medium term. With higher sales volume and stable international coal prices, CARE Ratings expects GMDC's PBILDT margin to remain healthy at ~25% and annual cash accruals to remain ~₹800 crore to ₹900 crore in the near-to-medium term.

Strong financial risk profile due to net debt-free company

GMDC does not have outstanding term debt or working capital borrowing as on March 31, 2024. It is unlikely to avail major external borrowing to finance its working capital. GMDC has unencumbered cash and liquid investments of ~₹1,800 crore as on March 31, 2024. GMDC mainly utilises non-fund based limits for extending bank guarantees (BG) to Ministry of Coal against allocation of coal block in Odisha. CARE Ratings expect the company shall remain net-debt free in the near-to-medium term.

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

In the last 10 years, GMDC produced lignite of ~7-11 MT annually. In FY24 and Q1FY25, the company produced and sold ~6.37 MT and 2.30 MT of lignite, respectively. GMDC's existing mines have reserves of ~87 MT as on March 31, 2024. Of the existing five mines, Rajpardy mine is expected to exhaust its reserves in FY25 and Umarsar mine in the next 4-5 years. It is essential for the company to develop new mines. 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 ~360 MT of lignite reserves. Management expects to develop these six new mines in the next 1.5-2 years to ensure production remains above 10 MTPA on a sustainable basis. The company got allocation of two coal blocks in March 2023 and one coal block in July 2024 at Odisha which it plans to develop in four years in a phased manner. However, coal output could be constrained due to delays in obtaining environmental and forest approvals and lack of adequate logistic infrastructure.

GMDC is expected to continue to participate in upcoming coal block auctions. The company is required to submit bid bond guarantee at the time of bidding. Additionally, once the company gets an allocation of coal block, it requires to submit performance BG with Ministry of Coal. The company sanctioned non-fund based working capital limits of ~₹4,000 crore of which ~₹1,700 crore is utilised as on June 30, 2024.

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

GMDC's management 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 defence. 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, Gujarat, and 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 industries like cement, agriculture, high-performance plastic, and glassmaking among others. Bauxite mines are in Kutch and Dwarka, Gujarat. In addition, GMDC is aiming to explore and mine metals like manganese, copper, lead and zinc. GMDC is also exploring more manganese in Panchmahal, Gujarat. To further expand its product portfolio, GMDC is developing capabilities for beneficiation of minerals like bauxite, silica and limestone and downstream integration in 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 ~50% in the medium term, which currently contributes less than 15%.

Stable demand for lignite and coal for fuel

Demand for lignite and coal is expected to remain stable in the medium term, driven by demand from thermal power, textile, steel, cement, and other industries. Moreover, India heavily depends on imported coal, which is a substitute for lignite. To reduce the dependency on import of coal, government is focusing on development of lignite and coal mines domestically. Furthermore, India's is heavily importing steam coal (187 MT in FY24), which can be replaced with domestic coal or lignite, providing GMDC an opportunity to grow.

Liquidity: Strong

GMDC has strong liquidity marked by its net-debt free status and unencumbered cash and liquid investments of over ₹1,800 crore as on March 31, 2024. Most GoG-promoted entities park their surplus liquidity with Gujarat State Financial Services Limited (GSFS). GSFS is a GoG undertaking and is registered with Reserve Bank of India (RBI) as a Non-Banking Financial Company (NBFC). GMDC has also parked its excess liquidity with GSFS and earns interest of 7% currently.

The company's liquidity is also supported by steady cash accruals. The company had negative working capital cycle in FY24 and is likely to remain at this level only due to its tight credit policy. The company plans to avail term debt of only ₹240 crore in FY25 for renovation of its thermal power plant. Interest and term-debt repayment obligation are expected to be ~₹40 crore in FY26 and FY27, against which the company is likely to generate annual GCA of ~₹800 crore to ₹900 crore per year in the near-to-medium term, providing significant cushion in debt servicing.

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 company's operations. Per Ministry of Coal, Government of India (GoI) guidelines for mine closure plan, the company has to recognise 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 mine closure guidelines and deposit this in escrow account maintained with scheduled bank in compliance with government guidelines. Changes in royalty and National Mineral Exploration Trust (NMET) regulations could affect the comparable cost efficiency of lignite against 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 at ~20% to 30%, it continued to incur losses from thermal power business. Thermal power plant's performance continues to be negatively 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 (₹2.40 per unit) fixed by GoG for transfer of power to Gujarat Urja Vikas Nigam Limited (GUVNL) per their power purchase agreement (PPA). However, PPA has been revised recently, where GMDC is allowed to charge cost plus 14% return on equity (ROE) for sale of power to GUVNL. GMDC has also received approval from GUVNL to incur capex of ₹300 crore for renovation of its thermal power plant. Capex will be funded by GMDC in Debt: Equity ratio of 80:20. GUVNL will adjust transfer price of power to compensate GMDC for interest cost and 14% ROE. Renovation and overhaul of thermal power plant is under progress and is expected to be completed by FY25. After the completion of capex, GMDC expects to achieve PLF of over 80% from FY26 onwards.

Renewable energy segment (solar and wind projects) is doing well and generating good profit on a consistent basis. GMDC's wind and solar power capacity is 200.5 MW and 5 MW, respectively. Steady cash flow generation from these renewable power generation capacity offsets operational under-performance of thermal power plants to an extent.

Large-size investment plans

GMDC's board of directors have approved capex of ₹3,041 for FY25, which includes ₹1,138 crore towards new lignite projects, ₹629 crore towards coal block in Odisha, ₹462 crore towards critical minerals, ₹371 crore for power project and balance towards routine capex for existing mines. However, as discussed with the company's management, GMDC is unlikely to incur entire capex in single year as it involves land acquisition, which is a time-consuming process and involves regulatory approvals. CARE Ratings expects company to incur capex of ₹3,500 crore to ₹4,000 crore over the next three years FY25 to FY27 which is to be majorly

financed through internal accruals and available liquidity. Such a large-size investment plan is expected to restrict free cash flow in medium term.

Furthermore, a major part of capex will also be incurred in Odisha where the company is new entrant. Timely and efficient execution of its capex plan to start generating commercial production from new mines will be among key rating monitorable.

Environment, social, and governance (ESG) risks

Factors	Compliance and action adopted by company
Environmental	<p>Metal and mining sector has a significant impact on 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 GMDC's large renewable power capacity off-sets greenhouse emission to an extent.</p> <p>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 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.</p>
Social	<p>The sector has a significant social impact because of its large workforce across its operations and value chain partners, and 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 projects. GMDC provides safety shoes and other safety devices and adopts best safety practices at every project site.</p>
Governance	<p>The governance structure is characterised by board comprising independent directors, split in chairman and MD positions, dedicated investor grievance redressal mechanism and healthy disclosures.</p>

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Nonfinancial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Commodities	Metals and mining	Minerals and mining	Industrial minerals

GMDC is promoted by GoG with 74% shareholding as on June 30, 2024. GMDC is primarily engaged in two businesses, mining and power generation. GMDC is involved in exploration of opencast lignite, bauxite, fluorspar, manganese, silica sand, limestone, and bentonite mines. The company operates lignite mines in Gujarat, namely, Mata-No-Madh, Rajpardi, Tadkeshwar, Bhavnagar and Umarsar. Other than lignite, GMDC also operates bauxite mines in Gujarat. Bauxite mines are in 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).

Brief Financials (₹ crore) – Consolidated	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	3,509	2,481	818
PBILDT	1,355	644	201
PAT	1,216	617	184
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	594.53	222.24	291.75

A: Audited; UA - Unaudited Note; NA – Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	7.00	Care A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	3993.00	CARE AA+; Stable/ CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	3993.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (05-Sep-23) 2)CARE AA+; Stable / CARE A1+ (18-May-23)	-	-
2	Fund-based - ST-Bank Overdraft	ST	7.00	CARE A1+	-	1)CARE A1+ (05-Sep-23) 2)CARE A1+ (18-May-23)	-	-

*Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Bank Overdraft	Simple
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure 6: List of entities consolidated in GMDC as on March 31, 2024

Sr. No.	Name of the company	Extent of Consolidation	Rationale for Consolidation
1.	Gujarat Foundation for Entrepreneurial Excellence	Moderate	Joint Venture
2.	Swarnim Gujarat Fluorspar Private Limited		
3.	Naini Coal Company Limited		
4.	Gujarat Jaypee Cement & Infrastructure Limited		Associate
5.	Gujarat Credo Mineral Industries Limited		

Sr. No.	Name of the company	Extent of Consolidation	Rationale for Consolidation
6.	Aikya Chemicals Private Limited		
7.	GMDC Science and Research Centre	Full	Subsidiary

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

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About us:

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Disclaimer:

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