Kurmitar Iron Ore Mining Private Limited

December 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	685.24	CARE A-; Stable	Reaffirmed; Outlook revised from Positive
Long-term / Short-term bank facilities	65.98	CARE A-; Stable / CARE A2+	Reaffirmed; Outlook revised from Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed long-term and short-term ratings assigned to bank facilities of Kurmitar Iron Ore Mining Private Limited (KIOMPL) at CARE A- and CARE A2+, while revising the outlook from Positive to Stable.' Revision in outlook of KIOMPL follows the similar action on KIOMPL's sponsor - Adani Enterprises Limited (AEL; rated CARE A+; Stable/CARE A1+).

CARE Ratings had earlier issued a credit update on AEL following Indictment and civil complaint filed by the United States Department of Justice (DoJ) and United States Securities and Exchange Commission (SEC), respectively, against Chairman and senior executives of Adani Green Energy Limited (AGEL). Subsequently, stating there is no jurisdiction against the defendants, these allegations have been refuted by the Adani group. CARE Ratings understand the matter is sub-judice, and therefore will continue to closely monitor events unfolding in the near term and assess the impact on the business and financial performance of all group entities, including KIOMPL.

Ratings assigned to KIOMPL's bank facilities continue to derive comfort from its long-term agreement with Odisha Mining Corporation Limited (OMC) along with assured quantity and presence of stockpiling charges leading to good revenue visibility, low counterparty risk considering OMC's strong credit profile, economically viable source of iron ore for OMC coupled with allowed escalation in the mining charges as per the agreement terms. Ratings also favourably factors in the completion of all activities of DA-1 and expected commencement of operations by Q4FY25 and timely progress of DA-2 with expected completion by Q1FY26 onwards. Post commissioning of DA-1 and DA-2, KIOMPL's revenue and profitability is expected to improve from FY26 onwards. Ratings continue to factor in the parentage of AEL which is engaged in diversified business operations and having strong presence in the mine development and operation (MDO) business in India, presence of trust and retention account (TRA) mechanism for cash flows whereby servicing of bank debt has seniority over promoter's subordinated debt and proposed creation of two quarter debt service reserve account (DSRA) as a liquidity cushion.

The rating strengths are tempered by project execution risk with respect to expansion of mine capacity, building up of requisite mining infrastructure, and penalty for lower than contracted supply of iron ore. Regulatory risks associated with the mining industry, dependence on iron and steel sector which is cyclical in nature, leveraged capital structure and inherent interest rate risk are continued rating weakness.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ramp-up of operations as per envisaged timelines leading to improvement in scale of operations and profitability.
- Improvement in credit profile of Adani Enterprises Limited

Negative factors

- Weak capacity utilisation and realisation on a sustained basis, adversely impacting coverage metrics with average debt service coverage ratio (DSCR) falling below 1.50x.
- Significant deterioration in credit profile of the counterparty and or inordinate delay in receipt of payments from the counterparty on a sustained basis.
- Any adverse change in the stance of AEL to support the operations of KIOMPL and/or deterioration in the credit profile of AEL impairing its ability and intent to support KIOMPL.

Analytical approach: CARE Ratings has considered standalone approach while factoring the strong parentage and availability of need-based support (in case of any exigencies) from its parent, AEL. CARE Ratings has applied parent notch up framework to arrive at KIOMPL's ratings.

Outlook: Stable

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

In view of indictment and civil complaint filed by the United States Department of Justice (DoJ) and United States Securities and Exchange Commission (SEC) on chairman of AGEL who is also chairman of AEL and its impact on AEL and KIOMPL given operational and financial linkages, the outlook is revised to stable.

Detailed description of the key rating drivers

Key strengths

Long-term agreement with OMC along with assured quantity and presence of stockpiling charges leading to good revenue visibility

KIOMPL has entered into a mining agreement with OMC for a period of 25 years. As per the agreement, KIOMPL shall be entitled to receive mining charges for the entire tenor of the agreement with OMC, which is 25 years or exhaustion of the iron ore reserves, whichever is earlier. Kurmitar iron ore block has significant mineable reserves providing good revenue visibility to the company. In FY24 and H1FY25, KIOMPL dispatched 3.89 million tonne per annum (MTPA) and 1.70 MTPA of iron ore, respectively, to OMC. Also, if OMC opts not to take dispatch of iron ore and instructs KIOMPL in writing to stock iron ore which is available for dispatch at its iron ore stockyards, then OMC shall pay KIOMPL 80% mining charges for un-dispatched iron ore.

Low counterparty risk as OMC has strong credit profile

The Kurmitar iron ore block has been allocated to OMC. OMC is a wholly state-owned corporation of the Government of Odisha. OMC has witnessed steady growth in the past years and presently is the largest state public sector undertaking (PSU) in the country's mining sector of the country. OMC has been classified as a 'Gold Category State PSU' and has a strong credit profile.

Economically viable source of iron ore for OMC coupled with allowed escalation in the mining charges

As per the terms of the agreement executed between KIOMPL and OMC, KIOMPL shall be entitled to receive mining charges from OMC at a predefined rate for calibrated lump ore (CLO) for the actual quantity of iron ore excavated and delivered by KIOMPL. Mining charges for fines are 80% of CLO. The 55% component of mining charges are fixed while 45% component of mining charges are linked to certain indices and escalable quarterly.

The rate of mining charges which is required to be paid by OMC to KIOMPL is significantly lower compared to the prevailing prices of iron ore in the domestic and international market. It is one of the economically viable sources of iron ore for OMC which substantiates continuation of this business arrangement between KIOMPL and OMC over a reasonably long time.

TRA mechanism for cash flows whereby servicing of bank debt has seniority over promoter's subordinated debt

Of the total promoter contribution, ~2/3rd is proposed to be infused by the promoters in the form of subordinated debt/quasi equity. The subordinated debt/quasi equity and the interest shall be subordinated to the bank debt. Till September 2024, AEL has already infused unsecured loans of ~₹355 crore and equity of ₹110.85 crore in KIOMPL. Further KIOMPL has entered a TRA agreement/escrow agreement with the lender as per which all monies received by KIOMPL shall be deposited into the TRA account and all payments, including payment of interest and principal to the lender, would be as per the predefined waterfall mechanism.

Proposed creation of two quarter DSRA in funded / BG form as a liquidity cushion

As per the proposed terms of bank debt, KIOMPL has proposed to create DSRA for one quarter of interest and principal repayment obligations on the rupee term loan in funded/bank guarantee (BG) form as a liquidity cushion in FY25. This would provide the company with liquidity cushion in case of exigencies.

Parentage of Adani Group which is engaged in diversified business operations and strong presence in the MDO business in India

KIOMPL is a wholly owned subsidiary of AEL which is the flagship company of the Adani Group. Incorporated in 1993, AEL is being chaired by Mr. Gautam Adani. AEL, on a standalone basis, has mainly integrated resource management (IRM), MDO and power trading businesses, whereas, Adani Group as a whole is engaged in diversified areas of businesses and operates in a range of sectors, primarily energy including domestic and overseas coal mining, power generation, transmission and distribution, port operations, logistics, city gas distribution etc. through various group entities. Adani Group is also involved in businesses such as agro processing & storage, commodities trading, solar cell and module manufacturing, shipping, bunkering, roads, sewage treatment, defence, and airports management among others.
AEL has strong presence in the MDO business in India with total mining services business portfolio of 114.60 MTPA, of which 54 MTPA is operational, 60.60 MTPA is under development.

Key weaknesses

Project execution risk with respect to expansion of mine capacity and building up of requisite mining infrastructure

As per the terms of the agreement executed between KIOMPL and OMC, KIOMPL shall be entitled to receive mining charges equivalent to 37% for dispatch of iron ore at Primary Area (PA), 73% for dispatch at Dispatch Area-1 (DA-1) and 100% for dispatch at Dispatch Area-2 (DA-2), respectively. Pending construction of DA-1 and DA-2, KIOMPL would incur operational losses as it would not receive 100% mining charges. On the other hand, it would be required to incur fixed cost for carrying out the mining activities. Hence, construction of DA-1 and DA-2 is very critical for KIOMPL to receive full mining charges. As on August 09, 2024, all the activities of DA-1 are completed and no-load trial run is successfully completed with OMC and after internal

compliances with OMC, it is expected to get operational by Q4FY25, whereas construction of DA-2 is ongoing with expected completion by Q1FY26 against earlier envisaged timeline of November 2024 due to heavy rainfall in the region,
KIOMPL project execution includes development of the mine and requisite mining infrastructure for excavation and dispatch of the iron ore to OMC. This mining infrastructure includes ore handling plant, processing, crushing and screening systems, railway side, and conveyer belt for transportation of the iron ore among others, which would be developed on forest land which is entirely under possession. Hence, KIOMPL remains exposed to inherent execution risk.
Also, prior to take-over of the mining operations by the Adani Group, the Kurmitar iron ore block was operational. KIOMPL is required to gradually ramp-up the extraction rate of iron ore along with building the required infrastructure. Given, the Adani Group's vast experience in the mining business, KIOMPL's project implementation risk is mitigated to a large extent.

Risk associated with lower than contracted supply of iron ore
In case of lower than contracted supply of iron ore by KIOMPL to OMC, KIOMPL shall be liable to pay damages on the shortfall quantity. Also, since the mining charges for fines are 80% of CLO, KIOMPL would be exposed to risk pertaining to lower revenues in case the production of CLO is lower-than-envisaged.

Regulatory risks associated with the mining industry along with dependence on iron and steel sector which is cyclical in nature
The mining environment in India has been uncertain given the highly regulated nature of mining industry thus exposing KIOMPL's operations and revenue profile to regulatory risks. The risks are not only in term of labour but also in the form of uncertainty associated with adverse changes in government regulations and policies. Moreover, iron ore excavated by KIOMPL finds application in the iron and steel sector and therefore, the growth prospects of iron ore business and the company are dependent upon the iron and steel sector which is cyclical in nature.

Leveraged capital structure and interest rate risk
KIOMPL's project cost of ~₹1,090 crore to be funded in a debt-to-equity ratio of 70:30. Also, KIOMPL has fund-based working capital limits of ₹65.28 crore in order to meet its working capital requirements, leading to a leveraged capital structure. Also, KIOMPL is exposed to adverse movement in the interest rates due to the floating rupee term loan. Fixed revenue could lower project returns in case of an adverse movement in interest rates over the tenor of the rupee term loan.

Liquidity: Adequate
KIOMPL's major revenue source is mining charges from OMC. KIOMPL's working capital limit requirement would depend on timelines in which mining charges are paid by OMC to KIOMPL. However, OMC has a strong credit risk profile with creditor days of ~30 days. Hence, OMC is expected to pay mining charges timely to KIOMPL leading to low working capital requirement for KIOMPL. For meeting its working capital requirement, KIOMPL has working capital limits of ₹65.28 crore. Also, KIOMPL has proposed to create DSRA for two quarter of interest and principal repayment obligations on the rupee term loan in funded/BG form as a liquidity cushion.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals and mining	Minerals and mining	Industrial minerals

The Kurmitar iron ore block in Sundergarh district in the state of Odisha has been allocated to OMC. KIOMPL was incorporated on October 18, 2019 as a wholly-owned subsidiary of AEL. Later, on October 31, 2019, KIOMPL entered into an agreement with OMC for a period of 25 years. Prior to take-over of the mining operations by the Adani Group, the Kurmitar iron ore block was operational and KIOMPL is required to incur capex for development of the mine and also for development of requisite mining infrastructure for excavation and dispatch of the iron ore to OMC. KIOMPL has commenced mining operations from April 01, 2021.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25(UA)
Total operating income	34	80	36
PBILDT	(44)	(1)	(13)
PAT	(55)	(20)	(20)
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

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-3

Complexity level of the various instruments/facilities 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 - LT-Term Loan		-	-	March 31st, 2035	685.24	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	65.98	CARE A-; Stable/ 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 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	Fund-based - LT-Term Loan	LT	685.24	CARE A-; Stable	1)CARE A-; Positive (05-Apr-24)	1)CARE A-; Negative (07-Apr-23)	-	1)CARE A-; Stable (01-Mar-22)
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	65.98	CARE A-; Stable / CARE A2+	1)CARE A-; Positive / CARE A2+ (05-Apr-24)	1)CARE A-; Negative / CARE A2+ (07-Apr-23)	-	1)CARE A-; Stable / CARE A2+ (01-Mar-22)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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