

## Barmer Lignite Mining Company Limited

March 25, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3 (A Three) and Withdrawn
<b>Total Bank Facilities</b>	-		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3' [Triple B; Outlook: Stable/ A Three] assigned to the bank facilities of Barmer Lignite Mining Company Ltd (BLMCL) with immediate effect. The above action has been taken at the request of BLMCL and 'No Objection Certificate' received from the lenders that have extended the facilities rated by CARE.

The ratings factors in strength from well-established promoter groups with rich experience in mining business, extension of support from promoter group (i.e. JSW Energy Barmer Limited) towards business operations and firm offtake arrangement for entire output of mines providing favorable revenue visibility.

However, the rating strengths continue to be constrained by regulatory risk associated with mining operations, delay in finalization of final transfer price of lignite by the state electricity regulator of Rajasthan and moderate financial risk profile.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Regulatory risk associated with mining operations**

BLML operations are subject to regulatory risk as the operations of the mine are governed by various environmental laws and guidelines. Any non-adherence to these guidelines and laws might impact the operations of the company. Further, 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 these two mines. BLML has worked out total estimated cost towards mine closure charges of Rs. 208.96 crore for Kapurdi mine having total mining life 31 years and Rs.302.27 crore for Jalipa mine is having total mining life of 55 years. The company has been depositing Rs. 6.74 crore starting from FY12 for Kapurdi mine and Rs. 5.50 crore from FY17 for Jalipa mine in respective escrow accounts. Thereafter, the amount is compounding annually at 5% through the life of respective mines.

##### **Delay in finalization of final transfer price of lignite by the state electricity regulator of Rajasthan**

Rajasthan Electricity Regulatory Commission (RERC) regulates the transfer price lignite for the company. The transfer price comprises the mine development cost (which includes land acquisition cost, preliminary cost and cost of equipment) and mine operating expenditure. BLML has requested for tariff rate of around Rs.2,627.13 /MT (gross) after royalty, cess, taxes and duties to RERC. RERC vide their interim order dated May 10, 2018 has given provisional rate of Rs.1,958.99/MT (including royalty, cess, taxes and duties) for FY19 subject to cost variation adjustment. Post this, RERC in their interim tariff order dated September 26, 2018 has approved an interim lignite transfer price of Rs.2,293.06/MT. The tariff is subject to final determination of tariff by RERC. Any significant deviation in expenditure could impact profitability of BLML, if not approved by the regulator. The lower tariff realized by BLML is in turn passed on to SWML, the Mine Development Operator (thereby not impacting its profitability). Consequently, any increase in cost approval by the regulator would be passed on to SWML.

##### **Moderate financial risk profile**

BLML continues to have moderate financial risk profile in FY21. The company reported overall gearing ratio of 1.64 times as on March 31, 2021 considering subordinate loan of Rs. 567.64 crore from JEEL. Gross cash accruals of the company stood at Rs.97.94 crore in FY21 as compared to Rs.47.19 crore in FY20. However, the company does not expect any capital expenditure related to mining operations.

### Key Rating Strengths

##### **Well established promoter groups with rich experience in mining business**

BLML is a joint venture between RSML (holds 51% stake) and JBEL (holds 49% stake). RSML is one of the public sector enterprises of the Government of Rajasthan, primarily engaged in mining and marketing of industrial minerals in the State. The very objective of the company is to achieve cost effective technological innovations in the mining of minerals and to diversify into mineral based downstream projects. RSML is a State Government Enterprise involved with the work of development of Lignite deposit for mercantile sale in cement, textile, brick kiln etc. industries and for the ultimate end use of power generation by open cast mining or underground lignite gasification. RSML at present is operating two lignite mines one at Giral in district Barmer and another at Kasnau-Matasukh in district Nagaur of Rajasthan.

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

JSW Energy (Barmer) Limited (JEBL; previously known, Raj West Power Limited), is a wholly-owned subsidiary of JSW Energy Limited (JEL). The company operates a 1,080 MW (8x135 MW) lignite based thermal power plant in Barmer district, Rajasthan.

#### **Extension of support from promoter group (i.e. JEBL) towards business operations**

JEBL has extended subordinated loan of Rs. 567.64 crore to BLML towards supporting the company's business operations. As per terms of debt, the repayment of debt to JEBL by BLML would be done post repayment of BLML's rupee term debt in FY39. Currently, JEBL is accruing the interest receivable on the subordinated loan. While BLML started paying the interest on the said loan from FY20 as the company's operational performance exhibited improvement. Going forward JEBL and JEL are committed towards extending financial support to the company for its business operations.

#### **Firm offtake arrangement for entire output of mines providing favorable revenue visibility**

JEBL executed Implementation Agreement (IA) with the Government of Rajasthan for the implementation, operation and maintenance of Lignite Mining cum Thermal Power Plant of 8X135 MW capacity based on Lignite mined from the Jalipa and Kapurdi Mines in the Barmer District of Rajasthan. In accordance with the IA, JEBL commissioned power plant in March, 2013. The company has executed power purchase agreements with the Rajasthan State distribution entities for the supply of entire power generated from the plant. The sales realization declined from Rs. 2,293/MT in FY20 to Rs.1,918/MT in FY21. However, the offtake improved from 5.41 MT in FY20 to 6.16 MT in FY21.

The agreement is for a period of 30 years from transfer of mining lease and receipt of all required approvals. The IA with JEBL is in the nature of a 'take or pay' agreement (assumed GCV of 2,827 kcal/kg at a normative PLF of 80% for JEBL. Though extremely unlikely, in case of inability of JEBL to take delivery of lignite, BLML is eligible to supply lignite to customers other than JEBL. The transfer price of lignite, is regulated by Rajasthan Electricity Regulatory Commission (RERC), is based on the mine development cost (which includes the land cost, preliminary cost and cost of equipment), mine operating expenditure which ensures sufficient cash flow to service debt obligations of BLML.

#### **Liquidity: Adequate**

Overall gearing of the company stood at 1.64 times as on March 31, 2021 providing limited headroom to raise funds to incur capital expenditure. The company had a cash & bank balance of Rs.164.96 crore as on March 31, 2021 out of which free and unencumbered bank balance stood at Rs.37.03 crore, Rs.48.60 crore was in form of DSRA and Rs.79.33 crore as deposits for mine closure charges. The expected gross cash accrual is adequate to service debt repayment of around Rs.85 crore in FY22.

#### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Financial ratios - Non Financial Sector](#)

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

[Criteria for Short Term Instruments](#)

#### **About the Company**

Barmer Lignite Mining Company Limited (BLML) is a Joint Venture (JV) company between Rajasthan State Mines & Minerals Limited (RSML) and JSW Energy (Barmer) Limited (JEBL). Further, BLML has entered into a Mine Development & Operation Agreement (MDOA) in December, 2010 with South West Mining Limited (SWML).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)	9MFY22 (Prov.)
Total operating income	862.27	1196.27	NA
PBILDT	251.54	312.16	NA
PAT	2.02	39.56	NA
Overall gearing (times)	1.86	1.64	NA
Interest coverage (times)	1.32	1.68	NA

A: Audited; Prov.: Provisional; NA: Not Available

#### **Status of non-cooperation with previous CRA: Not Applicable**

#### **Any other information: Not Applicable**

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

**Covenants of rated instrument / facility:** 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB; Stable (10-Sep-20)	1)CARE BBB (CWN) (30-Mar-20) 2)CARE BBB (CWN) (17-Oct-19)	1)CARE BBB; Stable (28-Dec-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB; Stable (10-Sep-20)	1)CARE BBB (CWN) (30-Mar-20) 2)CARE BBB (CWN) (17-Oct-19)	1)CARE BBB; Stable (28-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3 (31-Mar-21) 2)CARE A3 (10-Sep-20)	1)CARE A3 (CWN) (30-Mar-20) 2)CARE A3 (CWN) (17-Oct-19)	1)CARE A3 (28-Dec-18)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Available

**Annexure 4: Complexity level of various instruments rated for this company**

Sr No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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 instrument:** CARE Ratings Ltd. 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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