

Gujarat Credo Alumina Chemicals Private Limited

November 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	175.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Total Facilities	175.00 (Rs. One hundred and seventy five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Gujarat Credo Alumina Chemicals Pvt. Ltd. (GCACPL) draws strength from its experienced promoters having long standing experience in the bauxite processing business, synergetic operations of the envisaged project under GCACPL being a forward integration of the existing operations of its group company [i.e. Gujarat Credo Mineral Industries Ltd. (GCMIL)], strategic location of its proposed manufacturing facility at Mundra SEZ, long term bauxite supply agreement of GCMIL with Gujarat Mineral Development Corporation Limited (GMDC) along with completion of debt tie-up for the ongoing project of GCACPL.

The rating is, however, constrained by the project risk associated with timely implementation and stabilization of its ongoing large size green-field project within envisaged cost parameters as it is currently at a very nascent stage, high project debt-equity, strong competition from existing players in the market, balance equity investment in the project being pending and risk associated with lower than required bauxite supply by GMDC to GCMIL.

The ability of GCACPL to complete its green-field project within envisaged time & cost parameters, ensure timely infusion of balance promoter's contribution in the ongoing project, receipt of required beneficiated bauxite from GCMIL as envisaged along with achievement of envisaged capacity utilization levels and expected sales realizations are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with track record in similar line of business

GCACPL is a wholly owned subsidiary of Credo Mineral Industries Ltd (CMIL), which has resourceful promoters. As on March 31, 2017 CMIL on a standalone basis had a net worth of Rs.59 crore. Gujarat Apollo Industries Ltd. (Gujarat Apollo) which holds ~30% stake in CMIL had a net worth of Rs.463 crore on a consolidated basis as on March 31, 2017 with negligible debt on its books. The balance equity in CMIL is held by promoters of Credo group along-with their family members and few HNIs. GCMIL, a group company of GCACPL, is engaged in related field of manufacturing of beneficiated bauxite for the last five years

Forward integration project to the existing bauxite processing business of the group company

Incorporation of GCACPL is a strategic move by the Credo group to integrate the entire value chain of bauxite processing. GCMIL has production plant with an installed capacity of 5 lakh MTPA of beneficiated Bauxite and 10,000 MTPA of Zeolite 4A. On becoming operational, the proposed project under GCACPL is envisaged to consume ~1.18 lakh MTPA of beneficiated bauxite manufactured by GCMIL to fully utilize its Alumina Tri Hydrate (ATH) capacity of 65,000 MTPA. In addition, the manufacturing facilities of GCMIL & GCACPL are at just 90 km distance and hence will get benefits of low transportation cost.

Availability of long term raw bauxite supply agreement between GMDC and GCMIL

GMDC is a GoG owned company, having huge reserves of bauxite in the state of Gujarat. GCMIL has a long term bauxite supply agreement with GMDC to meet its requirement. This arrangement with GMDC for raw bauxite supply imparts

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

competitive edge to the operations of GCMIL from which even GCACPL is envisaged to benefit as it is envisaged to be an extension of the operations of GCMIL.

Location advantage of setting up manufacturing plant at Mundra SEZ

Manufacturing facility of GCACPL is to be strategically located at Mundra SEZ which will give huge logistic advantage to its export business. In addition, GCACPL would also benefit from various SEZ exemptions available in the form of Taxes, Cess, Duties, etc.

Project debt tie up completed

GCACPL has tied up the entire debt requirement amounting Rs.175 crore of term loan from a consortium of four banks. The term loan has door to door tenor of 12.5 years including 2.5 years of construction period, 0.50 years of moratorium period starting from CoD and 9.5 years of repayment period. Project is envisaged to commence its commercial production from April 2019 and repayment of term loans is scheduled to commence from Q.E. December 2019. The repayment schedule of term loan is structured such that there is low repayment during initial years which would gradually step up.

Key Rating Weaknesses

Risks associated with implementation and stabilization of large-size green-field project

GCACPL is setting up a project to manufacture ATH. The construction of the project is at a nascent stage and hence entails project implementation risk. However, GCACPL has appointed Alumin Resource LLC, USA (a global solution provider in the field of Minerals & Specialty chemical) to provide its technical know-how which partly mitigates the project implementation risk. Timely completion of the project within envisaged cost parameters and realizing envisaged benefits thereof shall be a key rating sensitivity.

Strong competition from established player in the market

In India, Hindalco is the single largest player which has dominant domestic market share of 80%-90% which allows it to dictate prices & quantities to be sold and hence it is likely to act as a strong competitor for GCACPL once its manufacturing facility is operational. However, GCACPL has received a letter of interest from one of the Taiwan based distributors of ATH in East- Asian markets, whereby it has shown its willingness to source nearly entire ATH production of GCACPL for a period of 5 years at some mutually agreed price.

Risk associated with lower than required raw bauxite supply by GMDC

Project of GCACPL being a forward integration would critically depend on supply of beneficiated bauxite from GCMIL and in turn supply of beneficiated bauxite from GCMIL would depend on required supply of raw bauxite by GMDC. During FY16, there had been lower than required raw bauxite supply by GMDC to GCMIL due to some mining related issues at the end of GMDC despite its long-term bauxite supply agreement with it. Going forward, required supply of raw bauxite from GMDC would be critical.

Balance infusion of promoter's contribution in the project is pending

The equity requirement for setting up of the project of GCACPL is envisaged at Rs.105.50 crore. The same is proposed to be met by way of right issue by CMIL wherein the company management has articulated that CMIL has received positive response from its existing shareholders to fully subscribe the right issue in their existing shareholding pattern. By August 21, 2017 CMIL has infused equity of Rs.43.54 crore in GCACPL, of which it has received ~Rs.38 crore from Gujarat Apollo. Timely right issue by CMIL would be critical for infusion of balance equity in GCACPL as this would be one of the critical enablers for timely implementation of the project.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Factoring Linkages in Ratings](#)

About the Company

Gujarat Credo Alumina Chemicals Private Limited (GCACPL) is wholly owned subsidiary of Credo Mineral Industries Limited (CMIL), incorporated on May 14, 2016 to setup a forward integration project at a group level to manufacture different grades of Aluminum Tri-Hydrate (ATH). In order to earn better margins, group has taken up a forward integration project in GCACPL for manufacturing ATH. Beneficiated bauxite manufactured by its group company viz. GCMIL would be used as a raw material by GCACPL for manufacturing ATH. GCACPL's manufacturing facility would be located at Mundra Special Economic Zone (SEZ), Gujarat with an installed capacity of 65,000 MTPA. The project is envisaged to be completed by January 2019 and commercial production is envisaged to commence from April 2019. The total project cost is envisaged at Rs.298.05 crore which is planned to be funded through equity capital of Rs.105.50 crore, subordinated unsecured loans from promoter group of Rs.17.55 and balance by way of bank term loan of Rs.175 crore. The project is currently at nascent stage of implementation with total incurred cost of Rs.46.98 crore by August 21, 2017, funded by equity capital of Rs.43.38 crore, promoter group unsecured loan of Rs.0.49 crore and balance Rs.3.11 crore as creditor's advance. GCACPL has achieved debt tie-up of Rs.175 crore with four lenders and repayment for term loans is to commence from Q.E. December 2019.

Brief Financials: Not Applicable since it is a project phase company

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	NA	March 31, 2029	175.00	CARE BBB-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	175.00	CARE BBB-; Stable	-	-	-	-

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