

Thriveni Sainik Mining Private Limited

February 26, 2020

Ratings

S. no.	Facilities	Amount (Rs. crore)	Rating ¹	Remarks
1.	Long term bank facilities (Fund Based-TL)#	259.00 (reduced from 320.00)	CARE BBB+ (CE); Credit watch with developing implications [Triple B Plus (Credit Enhancement); Credit watch with developing implications]	Placed on credit watch with developing implications
2.	Long term bank facilities (Fund Based-CC)#	60.00 (reduced from 70.00)	CARE BBB+ (CE); Credit watch with developing implications [Triple B Plus (Credit Enhancement); Credit watch with developing implications]	Placed on credit watch with developing implications
3.	Long/Short term bank facilities (Non-Fund Based- LC/BG)#	170.00 (enhanced form 160.00)	CARE BBB+ (CE)/ CARE A2 (CE); Credit watch with developing implications [Triple B Plus (Credit Enhancement)/ A Two (Credit Enhancement); Credit watch with developing implications]	Placed on credit watch with developing implications
	Total facilities	489.00 (Rs. Four hundred and eighty nine crore only)		

Details of instruments/facilities in Annexure-1
#backed by unconditional & irrevocable corporate guarantee provided by Thriveni Earthmovers Private Limited (TEPL)

Unsupported Rating²	CARE BBB-/ CARE A3 (Triple B Minus/ A Three)
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Detailed Rationale & Key Rating Drivers for credit enhanced debt

The above ratings assigned to the bank facilities of Thriveni Sainik Mining Private Limited are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Thriveni Earthmovers Private Limited.

Detailed Rationale & Key Rating Drivers (CE Rating)

CARE has placed the ratings assigned to Thriveni Earthmovers Pvt. Ltd (TEPL) on credit watch with developing implications. The rating action follows the uncertainty associated with TEPL's iron ore mining contract business given the on-going auctions of the majority of the iron ore mines wherein TEPL is the Mine Developer and Operator (MDO). CARE will take a view on the ratings once the exact implications of the auctions on the credit risk profile of TEPL are clear.

The ratings assigned to the bank facilities of TEPL continues to derive comfort from experienced promoters, effective maintenance of large fleet of owned heavy equipment, established relationship with large private iron-ore mining companies in Odisha, satisfactory financial performance in FY19 (refers to the period April 1 to March 31) and in H1FY20. The ratings, however, are constrained by high exposure to subsidiaries / Joint Venture (JV) albeit improvement witnessed in the recent performance of such companies, capital intensive nature of operations, regulatory risk in the mining industry and dependence on cyclical iron and steel sector.

Detailed Rationale & Key Rating Drivers (Unsupported Rating)

The unsupported ratings assigned factors in experience of the promoters, long term contract with NTPC, increase in scale of operations and profitability, moderate financial risk profile and moderate working capital cycle of the company. The ratings are however, constrained by project implementation risk and regulatory risk in the mining activity.

Key Rating Sensitivities (TEPL)
Positive Factors

- Ability to maintain PBILDT margin of more than 22% on a sustained basis.
- Improvement in debt coverage indicators with TD/GCA (<2x) and interest coverage (>5x) while maintaining overall gearing (<0.50x) on a sustained basis.

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

²As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019

Negative Factors:

- Deterioration in overall gearing (>unity) and debt coverage indicators; TD/GCA (>6x) and interest coverage (<2.5x) on a sustained basis
- Decrease in scale of operations (<Rs.1800 crore) on a sustainable basis.
- Any significant debt laden capex/acquisition.

Detailed description of the key rating drivers (TEPL)**Key Rating Strengths*****Experienced promoters:***

The promoters of TEPL, Mr. P. Balasubramaniam (Chairman) and Mr. B. Prabhakaran (MD), started Mine Development and operations (MDO) operation for limestone in 1992 and over the years it has made a significant presence in iron ore mining through TEPL and in open cast coal mining through its subsidiary JV Thriveni Sainik Mining Pvt Ltd. (TSMPL). TEPL also owns commercial lease of aggregate quarry situated at Hosur, Tamil Nadu. This apart, TEPL has controlling interest over a coal mine in Indonesia through a step down subsidiary, PT Minemex Indonesia (PTM), and also owns ~25% stake in Brahmani River Pellets Private Limited (BRPL) through its subsidiary Thriveni Pellets Private Limited (TPPL).

Effective maintenance of large fleet of owned heavy equipment

Over the years, TEPL has established a large fleet of owned heavy equipment of reputed vendors. Currently the company possess more than 1200 owned-heavy equipment, including dumpers and tipper, supporting equipment's, wheel-loaders, etc. TEPL purchases second hand equipment and refurbishes them in its warehouse in Tatanagar. Majority of its heavy equipment requirement is met in-house and the remaining is hired on contractual basis. While the dependence on owned equipment improves the profitability margin and quality of services, it poses a high risk to the company in times of weak order flow from the client.

Established relationship with large private iron-ore mining companies in Odisha

The company is operating as an MDO for major commercial iron ore mine owners in Odisha. TEPL has established strong relationship with them. The same is evidenced through repeat orders that TEPL gets from them.

Satisfactory financial performance, however, profits impacted due to write offs in FY19

TEPL's total operating income (TOI) increased by 26% y-o-y in FY19 on account of increase in mining rates for its major customers and due to execution of some ancillary work for some of its clients. During FY19, TEPL's PBILDT margins improved from 20.02% in FY18 to 23.45% due to higher margined rental income and higher margin ancillary work done. The PAT in FY19 was impacted due to certain non-cash write offs of advances and slow moving debtors. The interest coverage moderated from 4.12x in FY18 to 3.35x in FY19, but continued to be comfortable. Interest costs increased in FY19 over FY18 due to term loans availed during H2FY18. During H1FY20, TEPL reported a TOI of Rs.1214 crore and PBILDT margin of 21%. The overall gearing improved from 0.81x as on Mar'18 to 0.66x each as on Mar'19 and Sep'19. . In FY19 term loans has been prepaid by Rs.124 crore and by Rs.126 crore in the current year till Jan'20 largely through cash flows from BRPL. The TDGCA continued to be moderate, given the capital intensive nature of business, and improved from 5.43x as on Mar'18 to 4.14x as on Mar'19 and 3.25x as on Sep'19.

Key Rating Weaknesses***High exposure to subsidiaries / Joint Venture (JV) companies albeit significant improvement in performance in FY19 and H1FY20:***

TEPL has a fund based exposure of Rs.564 crore as on March 31, 2019 (Rs.686 crore as on March 31, 2018) in the form of investment & receivables to various group companies forming 37% of TNW as on same date. Additionally, the company has exposure in the form of corporate guarantee of Rs.300.70 crore as on March 31, 2019. The corporate guarantee given to Thriveni Sainik has increased from Rs.300 crore to Rs.550 crore during the current year.

A brief note on the performance of the major group companies is tabulated below:

Particulars and amount of investment	Comment on financial performance
Thriveni International Ltd (TIL), Dubai Holding company of PT Thriveni & whose major subsidiaries are PT Mandiingin Batubara (99% holding of PT Thriveni; MDO contractor in Indonesia) and PT Minemex (90% holding of PT Thriveni; owns and operates a coal mine in Indonesia) Exposure: Rs.91 crore in equity	The consolidated performance of PT Thriveni improved where it reported cash profit in CY17 (<i>refers to period Jan 1 to Dec 31</i>) and CY18, backed by improvement in performance of PT Mandiingin Batubara and PT Minemex in CY18.
Thriveni Sainik Mining Pvt Ltd TEPL entered into a JV with Sainik Mining & Allied Services Ltd in the ratio of 51:49 through an SPV – Thriveni Sainik Mining Private Limited. In Sep 2015, the JV bagged the MDO contract for 27 years to develop 15MTPA of coal at a rate of Rs.850/t Exposure: Rs.550 crore of corporate guarantee, Rs.78 crore of equity investment & Rs.7 crore of loans & advances	The performance of the TSMPL improved substantially in FY19 due to excavation being done for the whole year, even when some part like transportation through conveyors and automatic coal handling being under development. TSMPL's PBILDT margin improved to 7.30% in FY19 and it also reported a cash profit of Rs.47 crore, as against operational and cash level loss in FY18. The operations also improved in H1FY20
Thriveni Pellets Private Limited. TPPL is an SPV holding 49% shares of BRPL. 49% shares of BRPL is held by JSW Group. Exposure: Rs.184 crore of Loans & Advances and Rs.77 crore of Security Deposit. Security deposit was reduced to zero during FY20.	The operating performance of the company improved considerably as the CU improved from around 58% in FY18 to 79% in FY19 and 85% in H1FY20. The EBITDA/tonne increased from Rs.1288/tonne in FY18 to Rs.1687/tonne in FY19. This excludes profit captured shareholders levels. As per sales agreement between BRPL and its promoters, BRPL's entire sales will be routed through its promoters namely TPPL (TEPL, Adler and Saraf Family) and the JSW group in the ratio of shareholding.

Capital intensive nature of business

TEPL's operation is capital intensive in nature as it has to continuously incur capex for procuring heavy earthmoving and other mining equipment. Further, the company's operation is also working capital intensive in nature due to maintenance of stores & spares for its heavy equipment and provide credit period of around 1-2 months to its customers.

Regulatory risk in the mining industry

The Indian mining industry is highly regulated by the government of India and thus TEPL is exposed to the risk attached to ban on mining activities of its client due to sudden change in government policy. The operations of the company was impacted marginally in FY18 on the back of Hon'ble Supreme Court order requiring mine owners to deposit the penalty amount by December 31, 2017. Further, as per the amendment in Mines and Minerals (Development and Regulation) Act, 1957, the existing mining leases would be deemed to be extended from the date of their last renewal up to March 31, 2030 (in the captive miners) and till March 31, 2020 (for the merchant miners). The company is a mine development operator for major merchant miners in Odisha and hence the revenue from FY21 could be impacted till the auction is completed, mines are handed over and new contracts are assigned to MDOs.

Dependence on iron and steel sector

As majority of the company's revenue is derived from iron ore mining, the prospects of the company are dependent upon the iron and steel industry which is cyclical in nature.

Liquidity: Adequate (TEPL)

The liquidity of TEPL is supported by unutilized bank lines as the average utilization of the company for the last 12 months ended Nov 2019 was moderate at 52%. Further, the company has free cash, bank and liquid investments of Rs.48 crore as on March 31, 2019. The company has a scheduled debt repayment of Rs.159 crore in FY20 and the cash accruals during the year are expected to be sufficient to meet them. Apart from the scheduled repayment, the company has made pre-payment of Rs.126 crore in FY20, till Jan'20.

Analytical approach: Standalone.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

Financial ratios – Non-Financial Sector
 Consolidation and Factoring Linkages in Rating

About the Company-TEPL

Thrivani Earthmovers Pvt Ltd (TEPL) was initially promoted by Sri P. Balasubramaniam as a partnership firm in 1991 which was later converted into private limited company in 1999. It is engaged in mine development and operations contract services of various minerals (i.e. iron ore, copper, coal, bauxite, barite ore, etc) for private mine lease owners. TEPL is one of the largest mine developer and operator (MDO) of iron-ore in India.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1720.00	2167.56
PBILDT	344.33	508.36
PAT	71.19	57.09
Overall gearing (times)	0.81	0.66
Interest coverage (times)	4.12	3.35

A: Audited

About the Company-TSMPL

Thrivani Sainik Mining Private Limited (TSMPL) is a special purpose vehicle (SPV) promoted by Thrivani Earthmovers Private Private Limited and Sainik Mining and Allied Services Limited to undertake the work for development and operation of Pakri Barwadih Coal Mining Block (PB block) situated in the state of Jharkhand in District Hazaribagh. The contract has been provided by NTPC till September 2042.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	186.43	186.43
PBILDT	683.94	683.94
PAT	-7.47	-7.47
Overall gearing (times)	54.29	54.29
Interest coverage (times)	-15.64	-15.64

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

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	-	-	June 2026	259.00	CARE BBB+ (CE) (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BBB+ (CE) (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	170.00	CARE BBB+ (CE) / CARE A2 (CE) (Under Credit watch with Developing Implications)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB- / CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	259.00	CARE BBB+ (CE) (Under Credit watch with Developing Implications)	1)CARE BBB+ (CE); Positive (03-Sep-19) 2)CARE BBB+ (CE); Positive (04-Jul-19)	1)CARE BBB+ (SO); Positive (08-Jan-19) 2)CARE BBB+ (SO); Stable (13-Jul-18) 3)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (04-Apr-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+ (CE) (Under Credit watch with Developing Implications)	1)CARE BBB+ (CE); Positive (03-Sep-19) 2)CARE BBB+ (CE); Positive (04-Jul-19)	1)CARE BBB+ (SO); Positive (08-Jan-19) 2)CARE BBB+ (SO); Stable (13-Jul-18) 3)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (04-Apr-18)	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	170.00	CARE BBB+ (CE) / CARE A2 (CE) (Under Credit watch with Developing Implications)	1)CARE BBB+ (CE); Positive / CARE A2 (CE) (03-Sep-19) 2)CARE BBB+ (CE); Positive / CARE A2 (CE) (04-Jul-19)	1)CARE BBB+ (SO); Positive / CARE A2 (SO) (08-Jan-19) 2)CARE BBB+ (SO); Stable / CARE A2 (SO) (13-Jul-18) 3)CARE BBB+ (SO) / CARE A2 (SO) (Under Credit watch with Developing Implications) (04-Apr-18)	-	-
4.	Term Loan-Long Term	-	-	-	1)CARE BBB+ (CE); Positive (03-Sep-19) 2)Provisional CARE BBB+ (CE); Positive (04-Jul-19)	-	-	-
5.	Fund-based - LT-Cash Credit	-	-	-	1)CARE BBB+ (CE); Positive (03-Sep-19) 2)Provisional CARE BBB+ (CE); Positive (04-Jul-19)	-	-	-
6.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB- / CARE A3	-	-	-	-

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

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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