Thriveni Sainik Mining Private Limited
September 3, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities*	70.00	**CARE BBB+ (CE); Positive [Triple B Plus (Credit Enhancement); Outlook: Positive]**	**Final Rating@**
Total facilities	**70.00 (Rs. Seventy crore only)**		

Details of instruments/facilities in Annexure-1
**backed by unconditional & irrevocable corporate guarantee provided by Thriveni Earthmovers Private Limited (TEPL)*
@CARE has confirmed the rating assigned to the bank facilities of Thriveni Sainik Mining Private Limited upon the execution of the corporate guarantee and submission of requisite documents to the satisfaction of CARE.

Detailed Rationale & Key Rating Drivers

The above rating is based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by TEPL for the bank facilities of Thriveni Sainik Mining Private Limited (TSMPL).

The credit profile of TEPL derives comfort from experienced promoters, effective maintenance of large fleet of owned heavy equipment, established relationship with large private iron-ore mining companies in Odisha, strong order book position, satisfactory financial performance in FY18 (refers to the period April 1 to March 31) and H1FY19 and satisfactory capital structure. 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 major dependence on cyclical iron and steel sector. The ability of the company to sustain existing scale of operation in the future, successful execution of the projects (including NTPC coal mining project in a group company) and efficient management of working capital remains the key rating sensitivities.

Outlook: Positive

The outlook is positive on the back of expectation of continued improved performance of TEPL and its subsidiaries/group companies leading to reduction in debt levels of TEPL out of repatriation of funds from such subsidiaries/group companies. It is also expected that going forward, improved performance of TEPL's subsidiaries shall act as a buffer for TEPL's credit profile, especially if it gets impacted due to re-auctioning of mines.

Detailed description of the key rating drivers

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. Over the years, the company diversified its mining development operation by adding different minerals (which includes iron-ore, coal, barite ore, aggregates, etc.). 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 a step down subsidiary, PT Minemax (PTM), and also owns ~35% stake in Brahmani River Pellets Private Limited through its subsidiary Thriveni Pellets Private Limited.

Effective maintenance of large fleet of owned heavy equipment: Over the years, TEPL has established a large fleet of owned heavy equipment's of reputed vendors. Currently the company possess more than 700 owned-heavy equipment, including dumpers and tipper, supporting equipment's, wheel-loaders, etc. Majority of the fleet is from reputed vendors like Hitachi, Komatsu, BEML, Liebherr, Caterpillar, etc. Majority of its heavy equipment requirement is met by in-house and the remaining is hired on contractual basis.

Established relationship with large private iron-ore mining companies in Odisha: TEPL has distinguished clients spread across various parts of the country. The company has established strong relationship with its clients on the

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

back of quality services and successful track record, helping the company in bagging repeat orders. The clients of the company are established entities in their respective line of business. The company is operating as an MDO for major commercial iron ore mine owners in Odisha,

Strong order book position: Presently, TEPL currently has MDO contracts with various iron ore mines which has environmental clearance for around 44 MTPA. These MDO contracts are valid mainly till 2020. As per the MMDRA Act, all captive mines will be required to be auctioned by March 31, 2020, except those mines which are operating in their first renewal period.

Earlier, the pricing of the iron ore MDO contracts were reset after every quarter considering the changes in iron ore prices, but from Feb 2016 onwards, the pricing has been converted into fixed price contracts. Apart from iron ore, TEPL has recently bagged a mining contract for barite ore from APMDC for five year period (till 2021) and EPC contract for site development for irrigation project at Pollavaram aggregating Rs.448 crore.

Satisfactory financial performance in FY18 & H1FY19: TEPL's total operating income declined marginally by 2.27% y-o-y to Rs.1,721 crore in FY18. The decline in revenue was attributable to the temporary suspension in the mining activity of one of the mine owners which was a result of non-payment of penalty within the stipulated timeline (December 31, 2017). PBILDT margin declined marginally from 20.29% in FY17 to 19.96% in FY18 mainly due to lower execution volumes. Interest cost increased significantly from Rs.68.42 crore in FY17 to Rs.83.68 crore. Accordingly higher PBILDT was offset by the increase in interest cost as the Interest coverage ratio moderated from 5.22x in FY17 to 4.11x in FY18. In H1FY19, the company reported PBILDT of Rs.212.84 crore (Rs.210.56 crore in H1FY18) and PAT of Rs. 43.72 crore (Rs.65.94 crore in H1FY18) on a total operating income of Rs.897.79 crore (Rs.915.39 crore in H1FY18).

Healthy financial risk profile: The overall gearing and TD/GCA slightly moderated from 0.39x and 2.32x as on Mar.31, 2017 to 0.81x and 5.43x as on March 31, 2018 respectively mainly due to higher term loan availed to fund the acquisition of BRPL and to fund equipment purchase for execution of higher orders. On an adjusted level (considering corporate guarantee and letter of comfort as debt), the adjusted gearing deteriorated from 0.42x as on March 31, 2017 to 1.02x as on March 31, 2018 and further to 1.10x as on September 30, 2018.

Key Rating Weaknesses

High exposure to subsidiaries / Joint Venture (JV) companies albeit significant improvement in performance in FY18 and H1FY19: TEPL has a fund based exposure of Rs.839.02 crore as on March 31, 2018 (Rs. 341.87 crore as on March 31, 2017) in the form of loans and advances, investment and receivables to various group companies as on Mar.31, 2018 forming 63% of TNW as on same date. Additionally, the company has a non-fund based exposure in the form of corporate guarantee of around Rs.306.84 crore as on March 31, 2018.

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 Minemex, Indonesia & others, which owns and operates a coal mine in Indonesia (acquired in 2010) Exposure: Rs.91 crore in equity	Due to sharp decline in coal prices globally, mining operations at coal mines in Indonesia of PT Minex was suspended till December 2016. The operations of the company resumed in March 2017 and the performance of improved significantly due to resumption of mining activities in CY17. As per the management, the performance of the company is expected to improve further in CY18, as the company has been able to execute large contracts. The management does not forsee any further investment in TIL, Dubai by TEPL. The company reported PBILDT of Rs.33.25 crore in CY17 (-Rs.9 crore in CY16) on a total operating income of Rs.264 crore in CY17 (Rs.47 crore in CY16)
Thriveni Sainik Mining Pvt Ltd JV with Sainik Mining & Allied Services Ltd in the ratio of 51:49 through an SPV. JV has MDO contract for 27 years to mine 15MTPA of coal at a rate of Rs.850/t. Exposure: Rs.300 crore of corporate guarantee, Rs.64 crore of equity investment & Rs.1.3 crore of loans & advances	The operations of the JV have stabilized in FY19, with company reporting total income of Rs.596.12 crore and PAT of Rs.4635 crore as per the provisional results as against losses reported during FY18 both at operating level as well as net level.
Thriveni Pellets Private Limited. TPPL is an SPV holding 49% shares of BRPL. 51% shares of TPPL is held by JSW group. Exposure: Rs.323 crore of Loans & Advances and Rs.110 crore of Security Deposit	The performance of BRPL improved considerably post the takeover, as EBITDA/ton improved from Rs.1,288/ton in FY18 to Rs.1,815 in H1FY19. The management plans to ramp up the production further in ensuing months by improving its sales mix through increase in the proportion of high value sales to overseas players and players based in South India. The company has repaid around Rs.120 crore of TL availed by it from its shareholders by Oct 31, 2018.

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 SC 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 and hence the revenue from FY21 could be impacted due to uncertainty associated with the recent amendment.

Dependence on iron and steel sector which is cyclical in nature: The company is dependent upon iron and steel sector which is cyclical in nature.

Liquidity

The liquidity position of the company was moderate in the past 12 months with ~54% of CC utilisation for the 12 months ending September 2018. As on March 31, 2018, the company had a cash and bank balance (inclusive of FDs earmarked for margin money) of Rs.133.05 crore. In FY18, the company earned a GCA of 197.47 crore against a total debt repayment obligation of Rs.152.71 crore during FY19.

Analytical approach: Credit risk assessment of the guarantor has been conducted on a standalone basis after duly factoring the exposure towards the subsidiaries/joint ventures/associates.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Service Sector Companies]
[Financial ratios – Non-Financial Sector]

About TSMPL
TSMPL is a special purpose vehicle (SPV) promoted by TEPL and Sainik Mining and Allied Services Limited (SMASL) 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 work has been awarded by NTPC Limited (NTPC, rated CARE AAA; Stable/ CARE A1+). Currently, TEPL has 51% stake in the SPV and the remaining 49% is held by SMASL. The coal production from the PB block has already begun and is currently in the development stage which is expected to be completed by May 2020.

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

Brief Financials of TSMPL (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	9.00	186.43
PBILDT	-15.14	-7.47
PAT	-12.50	-15.64
Overall gearing (times)	0.00	0.59
Interest coverage (times)	-6.20	-2.93

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
Term Loan-Long Term	-	-	September 2025	60.00	CARE BBB+ (CE); Positive
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+ (CE); Positive

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.	Term Loan-Long Term	LT	60.00	CARE BBB+ (CE); Positive	1)Provisional CARE BBB+ (CE); Positive (04-Jul-19)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+ (CE); Positive	1)Provisional CARE BBB+ (CE); Positive (04-Jul-19)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None

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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