February 16, 2023

Bombay Minerals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based – Cash Credit	28.00	28.00	[ICRA]B+(Stable); reaffirmed
Short-Term Non-Fund Based Limits	1.00	1.00	[ICRA]A4; reaffirmed
Long-Term / Short-Term – Unallocated Limits	1.00	1.00	[ICRA]B+(Stable)/[ICRA]A4; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings favourably factor in Bombay Minerals Limited's (BML) access to captive bauxite mines in Jamnagar and proximity of the mines to its calcined bauxite manufacturing facility. ICRA notes that BML has a 31.76% stake (as on December 31, 2022) and management control in Orient Abrasives Limited (OAL), which provides it with ready access to additional bauxite mines, facilities for manufacturing higher value-added products from calcined bauxite. BML also enjoys the extended credit period against supplies and advances against future procurement from OAL. Besides, BML can liquidate its stake in OAL to meet any exigency, as witnessed in the past. ICRA also notes that the capital structure of BML is likely to remain comfortable in the near term in the absence of any major debt-funded capital expenditure (capex).

The company's performance in FY2022 was weaker than expected due to subdued demand for bauxite, unavailability of plant-grade bauxite and high overhead expenses in the proppant division, resulting in operating losses. In H1 FY2023, while the company's performance improved (wherein it reported profit at the operating and net levels) primarily due to savings in fixed overheads (owing to sale of loss-making proppant division in FY2022) and additional income from job work for OAL, its liquidity position continued to be stretched due to increased working capital intensity mainly on account of overdue receivables. The company's ability to improve profitability and liquidity position remains important from the credit perspective.

The ratings are also tempered by the constrained financial flexibility of BML due to weak financial profile of its parent company, Ashapura Minechem Limited (AML), which remains a non-performing asset (NPA) for its lenders. ICRA also notes the company's exposure to customer concentration risks with the top customer (OAL) accounting for over 70-80% of the revenues each fiscal, and to the regulatory risks associated with the bauxite mining industry.

The Stable outlook on [ICRA]B+ rating reflects ICRA's opinion that the company will benefit from the savings in overhead expenses, going forward, due to the sale of loss-making proppant division and the recent availability of plant grade bauxite in its mines, which will improve its capacity utilisation.

Key rating drivers and their description

Credit strengths

Access to bauxite mines - The company has leases for two mines in the Jamnagar district of Gujarat with validity till 2030. The mines have sizeable reserves and will last for at least 8-10 years. While BML's capacity utilisation had remained sub-optimal in the past due to non-availability of plant-grade bauxite, the same has improved in FY2023, as per the management. This is expected to improve the capacity utilisation, going forward. Nonetheless, unfavourable demand outlook for raw bauxite in the export markets along with the prevailing export duty on the same remain a concern.

Benefits derived from a 31.76% stake in OAL – BML holds a 31.76% stake in OAL (as on December 31, 2022) and has management control over the company. OAL manufactures calcined and fused alumina products and reported an operating margin and a net margin of 9.4% and 3.5%, respectively on an operating income of Rs. 151.5 crore in H1 FY2023 (operating margin and net margin of 8.6% and 2.7%, respectively in FY2022 on an operating income of Rs. 258.8 crore). The management control provides ready access to additional bauxite mines and facilities for manufacturing higher value-added products from calcined bauxite. OAL also provides extended credit period against supplies and advances against future procurement to BML. Besides, BML can liquidate its stake in OAL (being a listed company) in case of any exigency, as witnessed in the past. BML had liquidated 3.10% and 4.24% stake in OAL in FY2019 and FY2020, respectively to meet a part of its liquidity requirement.

Credit challenges

Stretched financial and liquidity profile – BML's liquidity profile remains weak due to cash losses incurred in FY2020, FY2021 and FY2022. The same was on account of subdued demand for bauxite, unavailability of plant-grade bauxite and high overhead expenses in the proppant. In H1 FY2023, while the company's performance improved (wherein it reported profit at operating and net levels) primarily due to savings in fixed overheads (owing to sale of the loss-making proppant division in FY2022) and additional income from job work for OAL, its liquidity position continued to be stretched due to increased working capital intensity of operations mainly on account of overdue receivables. The same is also reflected in high bank limit utilisation, increased debt levels, stretched payables and modest liquid balances. Notwithstanding the comfortable capital structure with a gearing of 0.5 times as on March 31, 2022, BML's financial profile remained weak in FY2022 with negative coverage indicators. Going forward, the ability of the company to increase its profit and thereby improve its liquidity position and financial profile remains key rating factors.

Weak financial profile of the parent company – BML is a wholly-owned subsidiary of AML. The weak financial profile of AML, which continues to be flagged as an NPA by its lenders, remains a key concern and in turn limits the financial flexibility of BML. A substantial improvement in the financial health of AML, leading to a change in its asset classification from NPA to standard, would remain critical.

Exposure to regulatory risks – The company remains exposed to regulatory risks as procurement of raw bauxite depends on issuance of royalty passes by the state government to mining companies.

High customer concentration – BML's customer base for calcined bauxite comprises domestic refractory manufacturers. BML is exposed to high customer concentration risks with a single customer accounting for over 70-80% of the revenues each fiscal (excluding iron ore trading sales). Nevertheless, the risk is mitigated to some extent as OAL is a sister concern of BML and BML has an assured customer in OAL.

Liquidity position: Stretched

BML's liquidity remains **stretched** as reflected by its high utilisation of fund-based working capital limits of Rs. 28 crore (average utilisation stood at 80% during the 12-month period ending January 2023) and modest unencumbered cash and bank balances of Rs. 0.4 crore as on December 31, 2022. BML's overdue receivables (outstanding for more than 180 days) stood high at around Rs. 13 crore as on September 30, 2022. Timely recovery of the same remains critical. BML does not have any major capex plans and debt repayment obligations. While the company's current fund-based sanctioned limit is Rs. 28 crore, ICRA understands that the banker has proposed to reduce the same. However, as confirmed by the banker and management, the matter is under discussion and the sanctioned fund-based limit continues to be Rs. 28 crore. In case the bank limits are reduced, ICRA expects BML to stretch the creditors to meet its liquidity requirements.

Rating sensitivities

Positive factors - The ratings may be upgraded if the company registers a sustained growth in revenues and profitability, leading to an improvement in the overall financial risk profile and liquidity position.

Negative factors - The ratings may be downgraded if continued pressure on revenues and profitability leads to lower cash flows or an elongation in the working capital cycle weakens the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of BML.

About the company

BML is a 100% subsidiary of AML and is primarily involved in the mining of bauxite. BML also manufactures refractory and abrasive grade calcined bauxite. While the refractory-grade calcined bauxite finds application in high alumina refractory formulations, bricks and shapes, abrasive-grade calcined bauxite is largely used in the production of brown-fused alumina. BML has mining leases for two mines in Jamnagar district of Gujarat with sizeable reserves. The company's calcined bauxite manufacturing facility is located at Khambalia in Jamnagar (Gujarat) and has an installed capacity of 85,000 metric tonnes per annum.

Key financial indicators (Audited)

Standalone	FY2021	FY2022
Operating Income	283.8	85.0
PAT	9.9	-10.0
OPBDIT/OI	1.7%	-10.2%
PAT/OI	3.5%	-11.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.2
Total Debt/OPBDIT (times)	7.4	-5.9
Interest Coverage (times)	0.8	-1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 16, 2023	Nov 26, 2021	Jan 29, 2021	Nov 22, 2019
1	**Cash Credit**	Long term	28.00	-	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]BB- (Negative)**	**[ICRA]BB-@**
2	**Non-Fund Based**	Short term	1.00	-	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4@**
3	**Unallocated Limits**	Long term/ Short term	1.00	-	**[ICRA]B+ (Stable)/ [ICRA]A4**	**[ICRA]B+ (Stable)/ [ICRA]A4**	**[ICRA]BB- (Negative)/ [ICRA]A4**	-

@: Under watch with negative implication

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund-Based - Cash Credit	Simple
Short-Term Non-Fund Based Limits	Very Simple
Long-Term/Short-Term - Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long-Term Fund-Based - Cash Credit**	-	-	-	28.00	[ICRA]B+(Stable)
NA	**Short-Term Non-Fund Based Limits**	-	-	-	1.00	[ICRA]A4
NA	**Long-Term/Short-Term - Unallocated Limits**	-	-	-	1.00	[ICRA]B+(Stable)/[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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