

Rating Rationale

February 02, 2024 | Mumbai

The Sandur Manganese And Iron Ores Limited Rating outlook revised to 'Positive'; Rating Reaffirmed; short term Rating Withdrawn

Rating Action

| | |
|----------------------------------|--|
| Total Bank Loan Facilities Rated | Rs.430 Crore (Reduced from Rs.896 Crore) |
| Long Term Rating | CRISIL A/Positive (Outlook revised from 'Stable'; Rating Reaffirmed) |
| Short Term Rating | CRISIL A1 (Withdrawn) |

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of The Sandur Manganese And Iron Ores Limited ("SMIORE") to '**Positive**' from 'Stable' while reaffirming the rating at '**CRISIL A**'.

CRISIL Ratings has **withdrawn** its rating on Rs 101 crore of letter of credit facilities at the company's request and receipt of a no dues certificate from lenders. CRISIL Ratings has also **withdrawn** its ratings on Rs 365 crores of proposed working capital facility at the company's request. This is in line with the CRISIL Ratings policy on withdrawal of bank loan ratings.

The revision in outlook reflects expected improvement in business performance backed by an enhancement in iron ore and manganese ore capacities from the next fiscal. Such enhancement will support revenue and profitability growth over the medium term. The Company reported revenues of Rs.583.2 crores for the half year ended as on 30th September 2023, with operating profitability of Rs 95.43 crores.

However, with the enhanced capacities revenues are expected to grow, along with an improvement in profitability. In the current fiscal, revenues are expected to see a de-growth owing to volatile coke and ferroalloys prices, however, operating profits are expected to witness an uptick backed by healthy performance in mining segment, with significant improvement in revenue and operating margins in the second half of the fiscal.

The rating also factors in a strong financial risk profile supported by a strong net worth, low gearing and strong liquidity position with liquid assets of over Rs 700 crore currently. While improvement in overall credit profile is expected over the medium term; traction in revenues from enhanced capacities and growth in operating profits shall remain key monitorable.

The rating continues to reflect a strong market position with a track record of seven decades and large mining reserves along with a strong financial risk profile. These strengths are partially offset by Susceptibility to regulatory risks associated with the mining industry and Susceptibility to inherent cyclicity in the steel sector

Key Rating Drivers & Detailed Description

Strengths:

- Long track record and extensive mining reserves:** SMIORE was set up in 1954 when Y. R. Ghorpade, the former Maharaja of Sandur, transferred the mining lease awarded to him in favor of the Company. Currently, it has two mining leases valid up to 31 December 2033, with estimated reserves of almost 110 million tons of iron ore and around 17 million tons of manganese ore with production capacity of 1.6 MTPA for the former and 0.286 MTPA for the latter. The Company is among the few entities classified in category 'A' mining leases with production capacity of more than 1 MTPA of iron ore. The increase in capacities of manganese to 0.58 MTPA and 3.81 MTPA in the iron ore division is expected to drive the revenues in the medium term. The extensive reserves, long validity of the mining license, and presence of seven decades in the industry are expected to continue benefiting the company in the near term. However, the traction of revenues, quality ores and the realization from the mining segment will be the key monitorable going forward.
- Strong financial risk profile:** The financial risk profile is strong marked by a healthy capital structure and robust debt protection metrics. The net worth stood strong at Rs.1933.82 crore and leverage levels remained low with gearing of 0.1 times as on March 31, 2023; likely to remain strong over the medium term. Debt protection metrics continues to remain robust with interest coverage and net cash accrual to adjusted debt of 15.75 and 1.58 times respectively in fiscal 2023 and likely to remain strong with healthy profitability and low to moderate debt levels over the medium term.

Weaknesses:

- Susceptibility to regulatory risks associated with the mining industry:** Mining industry in India is highly regulated by various state and central government agencies. Production, sale, expansion, environmental clearances, and extension/renewal of licenses are governed by various regulations and policies by these agencies. Any unfavorable change in any of these regulations may have an adverse impact on the business profile of the company. However, SMIORE is classified as a 'Category A' mining company and it has seven decades of track record of regulatory compliance and absence of any material operational disruptions due to environmental, societal or company specific regulatory issues. The mines are also rated 'five stars' by the Indian Bureau of Mines, Government of India under its Sustainable Development Framework (SDF). While exposure to regulatory risk will remain a key monitorable, the scientific and systematic mining processes followed by the company, in adherence to existing rules and regulations, partially mitigates this risk.
- Susceptibility to inherent cyclicity in the steel sector:** SMIORE has significant exposure to the steel sector since the majority of its products find application in the steel industry, which is an inherently cyclical industry. This makes the Company vulnerable to decline in demand or realization during a downturn in the steel industry and could impact the volume and operating cash flow. However, moderate cost of production and favorable demand supply scenario in the state of Karnataka partially mitigate this risk.

Liquidity: Strong

Bank limit utilization is low at around 37 percent for the past eleven months ended November 2023. Cash accruals are expected to be over Rs 350 crore, which are sufficient against term debt obligation of Rs 42 crores over the medium term. The current ratio is healthy at 2.45 times on March 31, 2023. Moderate cash and bank balance of around Rs. 24.9 crores as on March 31, 2023. Liquid investments of Rs. 905.9 crores in shares, debentures, and mutual funds as on March 31, 2023. Low gearing and moderate net worth support its financial flexibility and provides the financial cushion available in case of any adverse conditions or downturn in the business.

Outlook: Positive

CRISIL Ratings believes the credit profile of the Company is likely to further strengthen on the back of growth in revenue, profitability and a strong financial risk profile.

Rating Sensitivity factors**Upward factors:**

- Scale up in operations and profitability backed by incremental revenues from enhanced mining capacity strengthens operating profits to over Rs 600 crore over the medium term.
- Sustenance of strong financial risk profile with healthy capital structure and strong financial flexibility

Downward factors:

- Materially lower than expected revenue flow from enhanced capacities or significant fall in margins; constrains operating profits to below Rs 350 crore.
- Weakening in financial risk profile with high leverage levels and material moderation in financial flexibility

About the Company

SMIORE mines low-phosphorous manganese and iron ore in the Hosapete-Ballari region of Karnataka. It is the fifth-largest iron ore miner in Karnataka and the third largest miner of manganese ore in India and is the flagship business of the royal family of Ghorpade. SMIORE currently has a 95,000 TPA ferroalloy plant, a 32 MW captive power plant and a 0.5 MTPA coke oven plant with two waste recovery boilers

Key Financial Indicators

| As on / for the period ended March 31 | Unit | 2023 | 2022 |
|---------------------------------------|----------|---------|---------|
| Reported revenue | Rs crore | 2184.65 | 2283.97 |
| Reported profit after tax | Rs crore | 270.91 | 675.12 |
| PAT margins | % | 12.40 | 29.55 |
| Adjusted Debt/Adjusted Net worth | Times | 0.11 | 0.19 |
| Interest coverage | Times | 14.27 | 25.49 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

| ISIN | Name of the instrument | Date of Allotment | Coupon Rate (%) | Maturity Date | Issue size (Rs. Crore) | Complexity Level | Rating assigned with outlook |
|------|-----------------------------------|-------------------|-----------------|---------------|------------------------|------------------|------------------------------|
| NA | Working Capital Facility | NA | NA | NA | 295 | NA | CRISIL A/Positive |
| NA | Term Loan | NA | NA | Mar-28 | 135 | NA | CRISIL A/Positive |
| NA | Proposed Working Capital Facility | NA | NA | NA | 365 | NA | Withdrawn |
| NA | Letter of Credit | NA | NA | NA | 81 | NA | Withdrawn |
| NA | Bank Guarantee | NA | NA | NA | 20 | NA | Withdrawn |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2024 (History) | | 2023 | | 2022 | | 2021 | | Start of 2021 |
|---------------------------|---------|--------------------|-------------------|----------------|--------|------|--------|----------|-----------------|----------|------------------|------------------|
| | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 795.0 | CRISIL A/Positive | | -- | | -- | 04-11-22 | CRISIL A/Stable | 23-08-21 | CRISIL A/Stable | CRISIL A-/Stable |
| | | | | | -- | | -- | | -- | 02-03-21 | CRISIL A-/Stable | -- |
| Non-Fund Based Facilities | LT/ST | 101.0 | Withdrawn | | -- | | -- | 04-11-22 | CRISIL A1 | 23-08-21 | CRISIL A1 | CRISIL A2+ |
| | | | | | -- | | -- | | -- | 02-03-21 | CRISIL A2+ | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|-----------------------------------|-------------------|-----------------------|-------------------|
| Bank Guarantee | 20 | YES Bank Limited | Withdrawn |
| Letter of Credit | 25 | YES Bank Limited | Withdrawn |
| Letter of Credit | 56 | YES Bank Limited | Withdrawn |
| Proposed Working Capital Facility | 365 | Not Applicable | Withdrawn |
| Term Loan | 92 | Axis Bank Limited | CRISIL A/Positive |
| Term Loan | 43 | ICICI Bank Limited | CRISIL A/Positive |
| Working Capital Facility | 100 | HDFC Bank Limited | CRISIL A/Positive |
| Working Capital Facility | 35 | ICICI Bank Limited | CRISIL A/Positive |
| Working Capital Facility | 60 | Axis Bank Limited | CRISIL A/Positive |
| Working Capital Facility | 50 | IndusInd Bank Limited | CRISIL A/Positive |
| Working Capital Facility | 50 | RBL Bank Limited | CRISIL A/Positive |

Criteria Details

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| Links to related criteria |
| CRISILs Approach to Financial Ratios |
| Rating criteria for manufacturing and service sector companies |
| Rating Criteria for Steel Industry |
| Rating Criteria for Mining Industry |
| CRISILs Criteria for rating short term debt |

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