



Press Release

Earth Minerals Company Limited

November 27, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	20.00	IVR A(CE) /Positive (IVR Single A [Credit Enhancement] with Positive Outlook) *	Assigned
2.	Short Term Bank Facilities	5.00	IVR A1(CE) (IVR A One [Credit Enhancement])*	Assigned
		25.00 (Rupees Twenty five crore only)		

***CE rating is backed by corporate guarantee from Hind Energy and Coal Benefication (India) Limited (HECBL)**

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the above bank facilities of Earth Minerals Company Limited (EMCL) derives strength from unconditional and irrevocable corporate guarantee extended by Hind Energy and Coal Benefication (India) Limited (HECBL) to the bank facilities of EMCL. This corporate guarantee results in an enhancement in the rating of the said instrument to **IVR A (CE); Positive/IVR A1(CE) (IVR Single A [Credit Enhancement] with Positive Outlook; IVR A One [Credit Enhancement])** against the unsupported rating of **IVR BB/Stable (IVR Double B with Stable Outlook)**.

Further, the ratings derive comfort from established track record of the Hind Energy group and longstanding experience of the promoters, its reputed clientele, proximity of operations to South Eastern Coalfields Limited (SECL) mines, its strong logistic arrangements and high entry barriers in the sector. The ratings also note healthy financial performance of the guarantor marked by improvement in its operating income & profit margin coupled with its comfortable capital structure. However, these rating strengths are partially offset by EMCL's limited bargaining power against established customers, presence in a regulated sector, exposure to end user sector challenges and working capital intensive nature of its operations.



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The outlook remains positive with expected improvement in the financial risk profile of the guarantor driven by its healthy order book.

Key Rating Sensitivities:

Upward Factor:

- Successful implementation of new orders received from MAHAGENCO
- Significant improvement in scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis of guarantor
- Sustenance of the capital structure with improvement in TOL/TNW to below 3x and improvement in debt protection metrics of guarantor
- Improvement in liquidity with improvement in the operating cycle and improvement in average working capital utilisation of the guarantor
- Continuance of support from the corporate guarantor and the promoters

Downward Factors:

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators of guarantor
- Moderation in the capital structure with overall gearing moderated to more than 1x of guarantor
- Elongation in operating cycle leading to deterioration in the liquidity position of guarantor

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record and longstanding experience of the promoters**

Hind Energy group has an established operational track record in the coal beneficiation, coal handling, coal transportation and in trading of coal and developed an established healthy relationship with its customers and suppliers. The Hind Group incorporated in 2005 with the incorporation of its flagship company, HECBL. Ever since, the group has expanded their operations and is currently engaged in the business of coal washing, coal liaisoning, coal transportation and coal trading. The overall affairs of the group are managed by the promoters, Mr Pawan Kumar Agrawal, Mr. Rajeev Agrawal, Mr. Sanjay Agrawal and Mr. Satish Kumar



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Agrawal having experience of around three decades. All of them together look after the overall functioning of the group.

- **Reputed clientele**

From operations ranging over a decade, the group has established itself in the coal industry as one of the prominent private sector players by working for reputed clients in the private and public sector such as Rajasthan Rajya Vidyut Utpadan Nigam Limited, Vedanta Limited, Gujarat State Electricity Corporation Limited, Nabha Power Limited and TATA Power Company Limited among others. For power generation company's beneficiation is a very important process as it saves lots of cost for then and increase the efficiency of boilers. Hence the group holds an important position for its customers engaged in power generation.

- **High entry barriers**

The coal beneficiation business in India is highly regulated and falls under the purview of Ministry of Coal, Government of India as well as related to regulations made by Ministry of Environment, Forest and Climate Change, Government of India. Such high level of regulation from multiple government authorities creates entry barriers for new players. This provides an advantage to the existing players by keeping the competition low. Hind Group currently has the second largest coal washery in India. With limited number of companies present in the coal washeries business, Infomerics believes the existing players in the market will benefit from its established presence.

- **Strong logistic arrangements**

Cost and efficiency of logistical expenses play a key role in the coal beneficiation business. The group has continuously invested and built their own logistical infrastructure for optimum utilization of available capacity. The group has four railway sidings (two in HECBL, one in RCBPL and one in EMCL) used to transport coal to the coal washery. Having an owned railway siding is beneficial to the group as it provides an opportunity for delivery of coal in a time bound manner and save major cost of logistics thereby improving its operating margins. Further, the group also owns and leases a large fleet of 300 long vehicles comprising of trailers and pay loaders for coal transportation throughout the country.

- **Proximity of operations to South Eastern Coalfields Limited (SECL) mines**

The group purchases various grades of coal by e-auction through South Eastern Coalfields Limited (SECL) held by MSTC or Metal Junction. Clients having a linkage with South Eastern



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Coalfields Limited (SECL) submit an authorization letter to SECL allowing group to lift coal from the mines of SECL on behalf of them and wash the coal.

- **New order from MAHAGENCO**

HECBL and EMCL together have order of 4 lakh million tonne order from MAHAGENCO (Maharashtra State Power Generation Company Limited) to be supplied in five years, which the company expects to start from December mid, 2020. This will add to the revenue of EMCL.

- **Healthy financial performance of the corporate guarantor HECBL**

The total operating income of the HECBL witnessed an erratic trend over the last four years FY17- FY20 (Provisional). The same improved by around 13% in FY20 provisional to Rs.536.00 crore from Rs.472.95 crore in FY19 driven by higher beneficiation and the resultant improvement in rejects availability, which led to higher revenue from the sale of coal. The HECBL's EBITDA level and margin increased from Rs.75.38 crore and 15.94% in FY19 to Rs.123.74 crore and 23.09% in FY20 (provisional) respectively due to better fixed cost absorption across segments coupled with improvement in realisation from the sale of coal rejects. The PAT margin moved in line with the EBITDA margin and witnessed steady improvement in FY20. During H1FY21, the company witnessed downturn in its revenue and has achieved a revenue of Rs.80 crore. This is because, the group is in coal consumption industry which is directly linked to Power Industry. Because of world-wide pandemic and lockdown, all the factories were closed or were running in half of their capacity, leading to lower power consumption and hence affecting coal consumption. HECBL has a comfortable capital structure on the back of its satisfactory net worth base of Rs.210.59 crore as on March 31, 2020 (after adjusting for all the investments and loans and advance in group companies). The overall gearing ratio of HECBL remains comfortable and stood at 0.64 on Mar.31, 2019 vis-a-vis 0.58x as on March 31, 2018. However, as per FY20 provisional, overall gearing of HECBL has improved to 0.35x with accretion of profit to reserves and scheduled repayment of term loans. Total indebtedness of the HECBL as reflected by the TOL/TNW stood satisfactory at 0.55x as on March 31, 2020 (Prov.). Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 8.82x and 2.07 years in FY19. As per FY20 (Provisional), HECBL reported interest coverage of 12.95x and Total debt to GCA of 0.83 years.

B. Key Rating Weaknesses

- **Limited bargaining power against established customers**



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The group primarily supplies coal to power and cement companies with limited bargaining power of the company against established customers.

- **Presence in regulated sector and exposure to end user sector challenges**

Exposure to various government regulations restricts the business risk profile of the group to a large extent. Further, the end user companies are generally involved in power generation, cement manufacturing and steel and metal plants. The performance of these sectors are highly interlinked to economic cycles, hence any moderation in the financial risk profile of these companies may affect the performance of the Hind energy group.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of Hind Energy and Coal Benefication (India) Limited, provider of unconditional and irrevocable corporate guarantee to the bank facilities of EMCL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate on the back of its expected adequate cash accruals from the business and strong liquidity of HECBL. HECBL had adequate free cash balance and generated healthy cash accrual of around Rs.89.36 Cr in FY20 (Prov.) as against its debt repayment obligation of around Rs.10.25 crore. Further, HECBL is also expected to generate steady cash accrual in the range of ~Rs.63-73 crore over the near medium term against its repayment obligation in the range of ~Rs.4.56-10.25 crore during FY21-24.

About Earth Mineral Company Limited

Jharsuguda-based EMCL was incorporated in 2002. It was acquired by Hind Group. EMCL is led by Mr Pawan Kumar Agrawal and Mr. Rajeev Agrawal. It is engaged in coal Benefication business in Orissa with an installed capacity of 4.0 MTPA.

About Hind Energy and Coal Benefication (India) Limited

Bilaspur-based HECBL was incorporated in 2005 by Mr. Pawan Kumar Agrawal, Mr. Rajeev Agrawal, Mr. Sanjay Agrawal and Mr. Satish Kumar Agrawal as a private limited company and later the constitution was changed to a limited company in 2010. It beneficiates non-



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coking coal based on Gross Calorific Value (GCV) requirement of the customers like power generating companies, steel and cement companies. Beside coal beneficiation the company also trades in reject coal, (by-product of Coal Beneficiation process). HECBL currently has coal Beneficiation capacity of 6.48 MTPA. To cater various other coal mines the promoters of HECBL have floated various other companies in nearby coal mining areas engaged in the same line of operation. Over the years, the promoters made organic and inorganic expansion both through association with other players operating in the same segment. At present HECBL has established its own coal washing facilities and railway sidings at various important locations near coal mines. HECBL is the flagship company of the Hind group which is one of the largest players in the coal beneficiation sector.

Financials : EMCL

The company has not yet started operation and will start operating from December mid based on the order bagged from MAHAGENCO.

Financials : HECBL (Corporate Guarantor)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	472.95	536.00
EBITDA	75.38	123.74
PAT	32.34	71.58
Total Debt	101.75	74.57
Tangible Net worth	287.12	358.70
EBITDA Margin (%)	15.94	23.09
PAT Margin (%)	6.80	13.29
Overall Gearing Ratio (x)	0.64	0.35

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	20.00	IVR A [CE]/	-	-	



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
				Positive Outlook*			-
2.	Bank Guarantee	Short Term	5.00	IVR A1 [CE]*			

***based on corporate guarantee from Hind Energy and Coal Benefication (India) Limited**

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	20.00	IVR A [CE]/ Positive Outlook*
Short Term Non-Fund Based Limits- Bank Guarantee	-	-	-	5.00	IVR A1 [CE]*

***backed by corporate guarantee from Hind Energy and Coal Benefication (India) Limited**