



Press Release

Nilkanth Mining Co.

February 09, 2021

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Fund Based- Bank Facilities	5.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	5.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Nilkanth Mining Co. derives comfort from the extensive experience of its partners in mining industry, presence of a group company in coal mining sector deriving operational synergy and repeat orders from reputed clientele. The rating also notes steady improvement in its financial performance over the past two fiscals with strong revenue visibility in the near to medium term, gradual improvement in capital structure and healthy debt protection metrics. However, these rating strengths are partially offset by capital-intensive nature of its business, exposure to regulatory risk in the mining sector, tender driven nature of operation, leveraged capital structure and partnership nature of constitution.

Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics with interest coverage above 2.5x
- Effective working capital management with improvement in operating cycle and liquidity

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Elongation in the operating cycle impacting the liquidity and higher average utilization in bank borrowings to more than ~95% on a sustained basis



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Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Extensive experience of the partners in mining industry**

The firm is promoted by Ahmedabad based Mr. Jagdish Shivji Dholu and Mr. Vinesh Shivjibhai Dholu. With a rich experience of more than 20 years, Mr. Jagdish Shivji Dholu assist in the overall office administration and affairs of the firm and Mr. Vinesh Shivjibhai Dholu looks after tender bidding, site management, capacity building of the firm. Further, the partners are resourceful and have supported the firm through infusion of unsecured loans in regular intervals to meet its capital requirements.

- **Strong operational synergy with group company's presence in coal mining sector**

Mahalaxmi Infracontract Pvt Ltd (MIPL), a group company of NMC is engaged in coal mining space for more than 25 years. Presence of an established group company in the coal mining sector provides operational synergy to NMC.

- **Repeat orders from reputed clientele**

The firm has established client base primarily government entities due to strong network and track record of NMC partners in the mining industry, which mainly includes entities such as Eastern Coalfields Ltd and other subsidiaries of Coal India Limited. Further, the firm gets repeat orders from its reputed clientele, reflecting its service excellence.

- **Steady improvement in financial performance**

NMC witnessed healthy improvement in its financial performance over the past three fiscals ending in FY20 with steady increase in its operating profit and cash generation. The TOI grew with a CAGR of ~40% between FY2018-2020 with a healthy y-o-y growth of ~61% in FY20 bolstering the strong core operations of the firm. Further, being in service nature of operations the operating margin of the firm remained on the higher side during the aforesaid period. Further, during 9MFY21, the firm garnered a healthy revenue of Rs.158.30 crore despite nationwide lock down during April – June 2020 reflecting the all-pervasive nature of the industry. Infomerics expects strong growth in its scale of operations in the near term driven by the healthy order book and strong execution capability of the partners in the mining sector.



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- **Large order book coupled with strong near to medium revenue visibility**

NMC executes mining contracts either through JV route with MIPL as JV partner or on its own. Previously, the firm only executes contracts under JV with MIPL. However, during H2FY21, the firm got two long term contracts under its own name. Currently, the firm has four contracts in hand with an order book of ~Rs.1691 crore to be executed over next 5 years. Out of these four contracts two are under JV with MIPL and rest two are under its own name. Large order book indicates a strong revenue visibility for the firm.

- **Healthy debt protection metrics**

The firm has generated a healthy gross cash accrual over the past three years driven by its healthy profitability. Further, the gross cash accruals of the firm have also witnessed sharp improvement from ~Rs.11crore in FY18 to ~Rs.20 crore in FY20. The debt protection metrics of the firm remained comfortable with interest coverage ratio at 6.29x and Total debt to GCA at 2.83 years respectively in FY20.

Key Rating Weaknesses

- **Capital intensive nature of business**

The operation of the firm is capital intensive in nature as the firm has to continuously incur capex for procuring heavy mining equipment's (including spare parts and accessories) for smooth execution of the committed mining contracts and to execute new contracts.

- **Regulatory risk in the mining sector**

The mining environment in India has been highly uncertain with respect to issues like illegal mining and risk attached to mining activities of its client due to sudden change in government policies.

- **Tender driven nature of operation**

In contract mining sector, presence of various organized and unorganized players could depress margins.

- **Leveraged capital structure albeit gradual improvement in capital structure**

The capital structure of the firm remained leveraged marked by its high overall gearing ratio as on the past two account closing dates. However, the overall gearing ratio (treating unsecured loans from the partners as neither debt nor equity) witnessed a sharp improvement from 6.07x as on March 31,2019 to 3.18x as on March 31,2020 with healthy accretion of profit



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to net worth and scheduled repayment of term debts. However, the total indebtedness of the firm remained moderate with TOL/TNW at 4.84x as on March 31,2020. Considering the unsecured loans aggregating to Rs.6.71 crore as a part of equity the TOL/Adjusted TNW stood comfortable at 3.12x as on March 31,2020. Infomerics expects sharp improvement in its capital structure going forward with improved profitability.

- **Risks arising from partnership nature of business**

Given NMC's constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits NMCs flexibility to tap external channels of financing.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service sector companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the firm is expected to remain adequate in the near term driven by its healthy cash accruals vis-a-vis its debt servicing obligations. Further, despite its low sanctioned working capital limits as compared to its scale of operations, the average utilisation stood satisfactory at ~82% in the last 12 months ended on December 2020 is also indicating a moderate liquidity buffer.

About the Firm

Nilkanth Mining Co. (NMC) established in the year 2013, is involved in the business of EPC mining on a contractual basis for Government Entities. NMC is a government recognized contractor and is actively involved in mining work for various Coal India subsidiaries and other reputed clients such as Gujrat Mineral Development Corporation (GMDC), The Singareni Collieries Co. Ltd (SCCL), Neyveli Lignite Corp. Ltd (NLC) and many more. NMC is currently headed and supervised by equal partners Mr. Jagdish Shivji Dholu and Mr. Vinesh Shivjibhai Dholu.

Financials (Standalone):

(Rs. crore)



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For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	73.91	118.75
EBITDA	13.47	24.21
PAT	4.90	11.06
Total Debt	29.71	57.70
Tangible Net worth	3.58	16.04
EBITDA Margin (%)	18.22	20.39
PAT Margin (%)	6.62	9.31
Overall Gearing Ratio (x)	6.07	3.18

*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)	Rating	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	5.00	IVR BBB-/Stable Outlook	-	-	-

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



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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
Cash Credit	-	-	-	5.00	IVR BBB-/Stable Outlook