February 26, 2024

The Sandur Manganese & Iron Ores Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	400.00	137.00	[ICRA]A+ (Stable); upgraded from [ICRA]A(Stable)
Cash Credit	10.00	10.00	[ICRA]A+ (Stable); upgraded from [ICRA]A(Stable)
Non-fund-Based Facilities	486.00	285.00	[ICRA]A1; reaffirmed
Total	**896.00**	**432.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings action for The Sandur Manganese & Iron Ores Limited (SMIORE) factors in the company's significant increase in earnings expected from FY2025 following approvals obtained for increasing the iron ore mining capacity by ~2.4 times and manganese ore mining capacity by ~1.6 times. In the current fiscal, the company has obtained all statutory approvals, including environmental clearance from the Ministry of Environment, Forest and Climate Change (MoEFCC), maximum permissible annual production (MPAP) from the Central Empowered Committee (CEC) constituted by the Supreme Court, consent for establishment(CFE) and consent for operation(CFO) from the State Pollution Control Board and maximum permissible annual production (MPAP) from the monitoring committee constituted by the Supreme Court for enhancement of mining capacities from 1.60 mtpa to 3.81 mtpa for iron ore, and from 0.28 mtpa to 0.46 mtpa for manganese ore. More than doubling of the iron ore capacity, which remains the principal contributor to the company's operating profits, is expected to see SMIORE witnessing a sharp growth of more than 100% in its operating profits in FY2025 over FY2024 estimates[1], as the full-year benefits from the capacity enhancement start flowing in. The ratings also consider the established track record of the company for over seven decades in the mining industry and its status as one of the leading merchant miners of manganese and iron ore. The company has access to estimated iron ore reserves of 110 million tonnes (mt) and manganese ore reserves of 17 mt, which, along with its mining lease validity till December 31, 2033, provide long-term revenue visibility to its mining operations. The ratings also note the comfortable liquidity position of the company, as reflected in the large free cash/bank/liquid investment balance of ~Rs.775 crore as on February 15, 2024, which impart a high degree of financial flexibility to the company. SMIORE's overall leverage was negative on a net debt basis as on February 15, 2024, leading to a comfortable financial risk profile. ICRA also understands that the company is expected to follow a prudent capital allocation policy, commensurate with its earnings, which will support the financial risk profile over the near term.

The ratings are, however, constrained by the company's exposure to regulatory risks as it operates in a highly regulated mining industry. Any unfavourable change in the mining policy by the Government may impact its revenue growth and profitability. The ratings also factor in the exposure of its margins to volatility in prices of iron ore, manganese ore and ferro alloys. The increase in coke imports into India along with the volatility witnessed in coking coal prices has rendered the industry situation challenging for domestic coke manufacturers, including SMIORE. As a cautious approach, given the challenging operating conditions, the company has significantly cut down on merchant sales of coke by operating the facility to largely meet the requirement of long-term contract manufacturing arrangements, which too has reduced significantly in the current fiscal. This

[1] *ICRA estimates*

has led to sub-optimal capacity utilisation at the coke oven batteries, which has lowered the earnings from this segment in the current fiscal, thus adversely impacting the business return indicators of the company to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit metrics would continue to remain at comfortable levels, going forward, aided by healthy accruals and low leverage.

Key rating drivers and their description

Credit strengths

Significant increase in earnings expected from FY2025 following approvals for increased mining capacities – In the current fiscal, the company has obtained all statutory approvals, including environmental clearance from the Ministry of Environment, Forest and Climate Change (MoEFCC), maximum permissible annual production (MPAP) from the Central Empowered Committee (CEC) constituted by the Supreme Court, consent for establishment(CFE) and consent for operation(CFO) from the State Pollution Control Board and maximum permissible annual production (MPAP) from the monitoring committee constituted by the Supreme Court for enhancement of mining capacities from 1.60 mtpa to 3.81 mtpa for iron ore, and from 0.28 mtpa to 0.46 mtpa for manganese ore. More than doubling of the iron ore capacity, which remains the principal contributor to the company's operating profits, is expected to see SMIORE witnessing a sharp growth of more than 100% in its operating profits in FY2025 over FY2024 estimates[2], as the full-year benefits from the capacity enhancement start flowing in.

Established track record of over seven decades in mining industry; considerable experience of promoters – SMIORE was incorporated in 1954 by Late M. Y. Ghorpade, the eldest son of the former ruler of the Princely state of Sandur, Late Yeshwantrao Hindurao Ghorpade. SMIORE produces iron ore with Fe content of 56-58%, with lump to fine production ratio of 1:2. The company is also among the large miners of manganese ore in India. In addition, SMIORE manufactures ferro-alloys (silico-manganese and ferro-manganese) and coke, providing a diversified revenue stream.

One of the largest private sector iron ore and manganese ore miners in Karnataka with adequate reserves – The company has two mining leases, valid up to December 31, 2033, with proven reserves of almost 110 mt of iron ore and around 17 mt of manganese ore. It has an annual production capacity of 3.81 mtpa and 0.46 mtpa for iron ore and manganese ore, respectively. ICRA takes comfort from the vast reserves, long validity of the mining licence and established presence of the company in the mining industry. ICRA also positively considers the low-cost iron ore mining operations, which support the profitability of the mining division.

Comfortable financial risk profile and healthy liquidity – SMIORE's healthy profits over the years and low capital requirements in the mining business kept its return indicators healthy, as reflected by its core return on capital employed (RoCE) of 38-113% during FY2018 to FY2023. The company's low debt levels compared to its sizeable net worth resulted in a comfortable capital structure, as reflected by a gearing of 0.1 times as on March 31, 2023. The company's overall leverage stood negative on a net debt basis as on February 15, 2024, supported by a large free cash/bank/liquid investment balance of ~Rs.775 crore, leading to a comfortable financial risk profile. ICRA also understands that the company is expected to follow a prudent capital allocation policy, commensurate with its earnings, which will support the financial risk profile over the near term.

Credit challenges

Exposure to regulatory risks – The company operates in a highly regulated mining industry, which exposes it to regulatory risks, as witnessed by the mining restrictions imposed in Karnataka in the past. Any unfavourable change in the mining policy by the Government may impact its revenue growth and profitability.

[2] *ICRA estimates*

Exposure to price risks as it exposed to volatility in prices of iron ore, manganese ore and ferro alloys – SMIORE's earnings from the mining business remain volatile, as it is exposed to fluctuation in the prices of iron ore and manganese ore. Metal ores and ferro-alloy prices exhibit considerable cyclicality and are highly sensitive to global demand patterns.

Sub-optimal capacity utilisation and subdued earnings from coke segment in current fiscal affecting business return indicators to some extent – The increase in coke imports into India along with the volatility witnessed in coking coal prices has rendered the industry situation challenging for domestic coke manufacturers including SMIORE. As a cautious approach, given the challenging operating conditions, the company has significantly cut down on merchant sales of coke by operating the facility to largely meet the requirement of long-term contract manufacturing arrangements, which too have reduced significantly in the current fiscal. This has led to sub-optimal capacity utilisation at the coke oven batteries, which has lowered the earnings from this segment in the current fiscal, thus affecting the business return indicators of the company to some extent.

Liquidity position: Strong

SMIORE's liquidity profile remains strong, as reflected in the large free cash/bank/liquid investment balance of ~Rs.775 crore as of February 15, 2024, which impart a high degree of financial flexibility to the company. In the absence of any firmed-up major capex/investment plan in the near term, ICRA expects the company to generate healthy free cash flows, which would further bolster the on-balance sheet liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to report a sustained period of strong earnings, aided by ramp-up of the iron ore business, which further strengthens the liquidity and credit metrics.

Negative factors – Pressure on SMIORE's ratings could arise in case of any large debt-funded capex/acquisition, resulting in significant weakening of leverage and coverage indicators and liquidity position. The ratings could also face pressure due to material deterioration in cash accruals because of unfavourable movement in prices of iron ore/manganese ore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SMIORE. As on March 31, 2023, the company had one subsidiary and one associate that are enlisted in Annexure-2.

About the company

The Sandur Manganese & Iron Ores Limited (SMIORE), the flagship company of the Karnataka-based Sandur Group, was promoted in 1954 by Late M. Y. Ghorpade, the eldest son of the former ruler of the Princely state of Sandur, Late Yeshwantrao Hindurao Ghorpade. Mr. Bahirji A. Ghorpade, grandson of Late M. Y. Ghorpade, has been appointed as the Managing Director of the company with effect from June 17, 2020.

SMIORE is involved in mining of low phosphorous manganese and iron ore in the Hosapete-Ballari region of Karnataka. It has large mines with two leases, ML-2678 and ML-2679, with an area of 1,860.10 hectares (ha) and 139.20 ha, respectively. The permissible production capacity is 3.81 mtpa for iron ore and 0.46 mtpa for manganese ore. In addition, SMIORE manufactures ferro-alloys (silico-manganese and ferro manganese) and coke at its plant in Vyasankare, near Hospet.

Key financial indicators

SMIORE	FY2022	FY2023
Operating Income (Rs. crore)	2248.7	2125.8
PAT (Rs. crore)	675.1	271.1
OPBDIT/OI (%)	43.3%	19.9%
PAT/OI (%)	30.0%	12.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.3
Total Debt/OPBDIT (times)	0.3	0.5
Interest Coverage (times)	25.3	15.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2022 numbers are standalone and FY2023 numbers are consolidated

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2024 (Rs. crore)	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Feb 26, 2024	Dec 19, 2022	Sep 6, 2021	Nov 6, 2020	May 11, 2020
1	**Term Loans**	Long Term	137.0	136.80	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Cash Credit**	Long Term	10.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	**Non Fund-Based Limits**	Short Term	285.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	**Unallocated**	Short Term	0.0	-	-	-	-	-	[ICRA]A2+

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Non Fund-Based Limits	Very Simple

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Term Loans**	FY2018	NA	FY2028	137.00	[ICRA]A+ (Stable)
NA	**Cash Credit**	NA	NA	NA	10.00	[ICRA]A+ (Stable)
NA	**Non Fund-Based Limits**	NA	NA	NA	285.00	[ICRA]A1

Source: Company

Please Click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sandur Pellets Private Limited	100%	Full Consolidation
Renew Sandur Green Energy Private Limited	49%	Equity Method

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@icraindia.com

Deepayan Ghosh
+91 33 7150 1220
deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches