June 30, 2023

Penguin Trading & Agencies Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term-Fund Based/Non Fund Based-Cash Credit	-	100.00	[ICRA]A (Stable)/[ICRA]A1; reaffirmed; assigned for enhanced amount
Long Term / Short Term-Unallocated	28.00	0.00	-
Total	**28.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has factored in the consolidated financial profile of Penguin Trading & Agencies Limited (PTAL) due to the operational and financial linkages between PTAL and its subsidiaries.

The ratings reaffirmation factors in PTAL's comfortable financial profile, characterised by its healthy earnings since FY2022 from the iron ore mining business due to a rally in commodity prices, leading to a modest debt level and a comfortable overall liquidity position. PTAL posted a consolidated operating profit of Rs. 232.2 crore in FY2022 against Rs.164.5 crore in FY2021, significantly better than Rs. 42.6 crore recorded in FY2020. In FY2023, PTAL's steel business witnessed a contraction in spreads, in line with other players, mainly due to a disproportionate increase in key input costs (like thermal coal). In addition, contributions from the iron ore mining business also weakened sequentially in FY2023 due to a nearly 40% decline in blended iron ore realisations. Notwithstanding these realisation and cost headwinds, the operating profits of PTAL in FY2023 were supported by the doubling of iron ore production capacity from 1.08 mtpa[1] to 2.16 mtpa after receipt of Environmental Clearance (EC) in March 2022. This helped PTAL to record only a modest dip in its standalone operating profit at Rs. 244.3 crore (as per the provisional financial statements) in FY2023 against Rs. 258.3 crore in FY2022, but still significantly better than Rs. 153.7 crore recorded in FY2021. The operating earnings will get further support by the planned foray into direct exports of lower grade iron ore (i.e. iron ore with <58% Fe content) commencing from FY2024. PTAL is planning to purchase two rakes from Indian Railways to save the freight cost on such exports, which have the potential for earning additional rental income when remain idle after captive use.

The ratings continue to derive comfort from the long experience of the promoters in the iron-ore mining business. The mining lease of the company is valid till 2036, with proven reserves of almost 31.61 million tonnes (mt) of iron ore. ICRA, therefore, takes comfort from the sizeable reserves, higher share of lumps in the overall production of iron ore (~60-65%), long residual validity of the mining licence, and established presence of the company in the mining industry. ICRA also positively considers the competitive mining cost of PTAL, benefitting from operating a mine bagged under the erstwhile allotment regime having no revenue share, which leads to a distinct structural advantage and supports the overall profitability. While the average iron ore prices are expected to be sequentially lower by ~10% in FY2024, the planned ramp-up in production by ~20% in the current fiscal is expected to support the overall earnings to remain at levels much higher than the historical average. Therefore, PTAL's credit indicators are expected to remain strong, going forward, on the back of healthy profitability and modest borrowing levels. Also, the prudent and conservative expansion plans of PTAL further support the credit metrics of the company in the near-to-medium term.

[1] Metric Tonne Per Annum

The ratings, are, however, constrained by the regulatory risks associated with the mining sector and the cyclicality inherent in the consuming steel industry. While PTAL's cost of mining remains competitive, the movement in iron ore prices, going forward, would remain critical to its profitability. Besides, PTAL derives the bulk of its consolidated revenues and profits from its single mine located in Odisha, thus exposing the company to mine-specific production disruptions like floods/natural calamities, labour unrest, and regulatory actions, which heighten the risk of volatility in cash flows. The rating is also tempered by the significant increase in illiquid investments during the past three years (from FY2021 to FY2023), in the form of unsecured loans to companies with modest financial risk profile as well as PMS/AIF schemes. This has accentuated the counterparty credit and market risks, and adversely impacted the overall liquidity. In addition, PTAL's increase in investments in quoted securities further enhances its exposure to market risks. ICRA notes that the level of exposure and concentration of such risky and illiquid investments are key credit rating factors in the near term.

The Stable outlook on the long-term rating reflects ICRA's expectations that PTAL will continue to benefit from the favourable demand outlook for long products emanating from the Government's infrastructure investment plans, which should support a healthy growth in demand for iron ore, in turn helping PTAL scale up its mining operations. This, along with its conservative growth plans are expected to keep its credit metrics at comfortable level in the near term.

Key rating drivers and their description

Credit strengths

A jump in earnings since FY2022 supported modest debt levels and healthy liquidity – PTAL posted a consolidated operating profit of Rs. 232.2 crore in FY2022 against Rs.164.5 crore in FY2021, significantly better than Rs. 42.6 crore recorded in FY2020. In FY2023, PTAL's steel business witnessed a contraction in spreads, in line with other players, mainly due to a disproportionate increase in key input costs (like thermal coal). In addition, contributions from the iron ore mining business also weakened sequentially in FY2023 due to a nearly 40% decline in blended iron ore realisations. However, notwithstanding these realisation and cost headwinds, the FY2023 operating profits of PTAL were supported by the doubling of iron ore production capacity from 1.08 mtpa[2] to 2.16 mtpa after receipt of EC, issued by the Ministry of Environment, Forest and Climate Change (MoEFCC). This helped PTAL to record only a modest dip in standalone operating profit to Rs. 244.3 crore (as per the provisional financial statements) in FY2023 against Rs. 258.3 crore in FY2022, but still significantly higher than Rs. 153.7 crore recorded in FY2021, leading to modest debt levels and healthy liquidity position of PTAL.

EC nod for doubling of capacity and an increase in production to keep overall earnings at healthy levels in FY2024 despite moderation in iron ore prices – PTAL was granted EC by MoEFCC for increasing the production capacity of iron ore from the existing 1.08 mtpa to 2.16 mtpa. While the average iron ore prices are expected to be sequentially lower by ~10% in FY2024, the planned ramp-up in production by ~20% in the current fiscal is expected to support the overall earnings to remain at levels much higher than the historical average. Also, as per the notification of the Ministry of Environment for expansion of the produced iron ore capacity by up to 40% within the existing premises/ mine lease area without additional land acquisition, has certain relaxed norms like waiver of public hearing, thus backing the further expansion plans of PTAL.

Long experience of the promoters in the iron-ore mining business – The promoters have been involved in the iron-ore mining business for more than three decades. The original lease of the mine, owned by PTAL, was obtained in 1986. Initially the mining lease was in the name of Mr. R. L. Bathwal, the Promoter of the Group. In 1991, the mining lease was transferred to PTAL. The company's original mining lease was valid till 2006, following which it obtained the first renewal with validity till 2026. However, as per The MMDR Amendment Act, 2015, the company's lease validity has been extended by 10 more years to 2036.

Long residual lease tenure without revenue share supports profitability and revenue visibility; cost advantage over newly auctioned mines due to significantly lower regulatory charges – The mining lease of the company is valid till 2036, with proven reserves of almost 31.61 million tonnes (mt) of iron ore. ICRA, therefore, takes comfort from the sizeable reserves, higher

[2] Metric Ton Per Annum

share of lumps in the overall production of iron ore (~60-65%), long residual validity of the mining licence, and established presence of the company in the mining industry. ICRA also positively considers the competitive mining cost of PTAL, benefitting from operating a mine bagged under the erstwhile allotment regime having no revenue share, which leads to a distinct structural advantage and supports the overall profitability.

Healthy profitability and credit indicators, backed by cost-competitive operations and prudent growth plans – In FY2023, domestic iron ore prices fell sequentially on the back of improving local supplies and correction in international prices. However, PTAL's profitability metrics in FY2023 remained largely at the same level as FY2022 due to lower regulatory charges (like royalty) and higher quantity of iron ore mined and dispatched during the year. Healthy profitability resulted in modest capitalisation and coverage metrics in FY2022 and FY2023. The consolidated capital structure, as reflected by a consolidated gearing, is estimated to be at 0.2 times as on March 31, 2023 against 0.1 times as on March 31, 2022, and 0.3 times as on March 31, 2021. The consolidated coverage metrics, as reflected by the interest coverage, improved to an estimated 63.4 times in FY2023 from 29.3 times in FY2022 and 20.8 times in FY2021. The operating earnings are further supported by the planned foray into direct exports of lower grade iron ore (i.e. iron ore with <58% Fe content) commencing from FY2024. PTAL is planning to purchase two rakes from the Indian Railways to save the freight cost on such exports, which have the potential for earning additional rental income when remain idled after captive use. Therefore, PTAL's credit indicators are expected to remain strong, going forward, on the back of healthy profitability and modest borrowing levels. Also, the prudent and conservative expansion plans of PTAL further support the credit metrics of the company in the near-to-medium term.

Credit challenges

Risks arising from operating in a highly regulated iron ore mining industry – PTAL remains vulnerable to regulatory risks associated with the iron ore mining industry in India and the cyclicality inherent in the consuming steel industry. For mining without/beyond the approved limit as per EC, the company had to pay a sizeable demand (around Rs. 47 crore) raised by the Government of Odisha (GoO) in FY2018. In addition, the company received a demand of Rs. 5.58 crore raised by the GoO for producing above the limit permitted by the mining plan/ consent to operate (CTO) and an additional demand of Rs. 6.70 crore related to royalty. However, these last two demands accumulating to Rs. 12.28 crore have been legally contested by PTAL along with other miners and stay orders on the demands have been received until a legal resolution.

Exposure to asset concentration risk – PTAL derives bulk of its consolidated revenues and profits from its single mine located in Odisha, thus exposing the company to mine-specific production disruptions like floods/natural calamities, labour unrest, and regulatory actions, which heighten the risk of volatility in cash flows.

Exposure to cyclicality inherent in the consuming steel industry – The demand and price of iron ore would depend on the consuming steel industry, which is cyclical in nature. Though PTAL's cost of mining remains competitive, the movement of iron ore prices, going forward, would remain critical to its profitability.

Steadily rising portfolio of risky investments, which exposes the company to counterparty credit and market risks – A significant increase in illiquid investments during the past three years (from FY2021 to FY2023), in the form of unsecured loans to the companies with modest profile as well as PMS/AIF schemes has accentuated the counterparty credit and market risks, and adversely impacted the overall liquidity. In addition, PTAL's increase in investments in quoted securities further enhance its exposure to market risks. ICRA notes that the level of exposure and concentration of such risky and illiquid investments are key credit rating Factors in the near term.

Liquidity position: Strong

While PTAL has sizeable investments in quoted equity shares, portfolio management schemes (PMS)/Alternative Investment Funds, unlisted bonds, and debt mutual funds accumulating to around Rs. 211.1 crore as on March 31, 2023, only Rs. 57.55 crore are in relatively lesser risky liquid instruments. In addition, PTAL has extended unsecured loans of Rs. 257 crore as on March 31, 2023 to the companies with modest profile, which led to a rise in the counterparty credit risk and remains a key credit monitorable. However, PTAL's consolidated liquidity position is likely to remain **strong** over the next 12-18 months, supported by healthy free cash flow generation from the mining business. The increase in working capital limits (cash credit) from Rs. 28 crore to Rs. 100 crore along with the sanctioning of a term loan of Rs. 60 cror (to fund the purchase of two railway rakes) is expected to support the company's upcoming growth plans, while maintaining a comfortable liquidity position.

Rating sensitivities

Positive factors – Significant scaling up of operations and diversification of asset concentration risk could result in ratings upgrade while maintaining healthy profitability and liquidity of the company.

Negative factors – Pressure on PTAL's ratings may arise due to a significant weakening of iron ore demand and realisations or due to any adverse regulatory development in the industry. Any sizeable depletion in liquid investment portfolio, or a large debt capex/investment, or a substantial increase in loans/advances could lead to rating downgrade. Specific triggers for downgrade would be Total Debt/OPBDITA greater than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Rating Methodology for Mining Entities Consolidation and Rating Approach
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PTAL. As on March 31, 2023 (provisional financial statements), the company had three subsidiaries and seven associates.

About the company

Penguin Trading & Agencies Limited (PTAL) was incorporated in August 1981 by the Kolkata-based Bathwal family. PTAL, the flagship entity of the Group, has been involved in iron ore mining. The company's iron ore mine is located at Raikela and Tantara villages in the Sundargarh district of Odisha, which falls under the Koira mining belt. PTAL has a mineral reserve of around 31.61 million tonnes (mt). The mining lease is valid till 2036. PTAL's erstwhile wholly-owned subsidiary, Bhagawati Steels Private Limited (BSPL), having sponge iron manufacturing capacity of 15,000 tonnes per annum (tpa), has been merged with PTAL and the merger has been accounted in the audited financials of FY2020.

Key financial indicators (audited/provisional)

PTAL	Consolidated			Standalone			
	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022	FY2023Prov
Operating income	301.4	441.8	654.1	187.64	318.27	490.75	485.90
PAT	(12.07)	115.5	205.1	(2.69)	111.50	178.40	195.03
OPBDIT/OI	14.1%	37.2%	35.5%	21.71%	48.30%	52.64%	50.27%
PAT/OI	-4%	26.1%	31.4%	-1.43%	35.03%	36.35%	40.14%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.2	0.3	0.2	0.2	0.4
Total debt/OPBDIT (times)	2.7	0.9	0.1	1.5	0.4	0.1	0.4
Interest coverage (times)	4.1	20.8	29.3	5.8	24.8	43.9	79.8

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 30, 2023	Apr 04, 2022	-	Feb 05, 2021
1	**Fund Based/Non Fund Based-Cash Credit**	Long term and short term	100.00	88.22	**[ICRA]A (Stable)/ [ICRA]A1**	-	-	-
2	**Untied Limits**	Long term and short term	-	-	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A-(Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based/Non Fund Based-Cash Credit	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based/Non Fund Based-Cash Credit	-	-	-	100.00	[ICRA]A (Stable)/[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis*

Company Name	Ownership	Consolidation Approach
Power International DMCC	100.00%	Full Consolidation
Bathwal Plastics Limited	51.45%	Full Consolidation
Pragyan Odisha Metalik	100.00%	Full Consolidation
Seven Star Steels Limited	19.08%[3]	Equity Method
Loucal Promoters Private Limited	35.19%	Equity Method
Calmo Estates Private Limited	43.64%	Equity Method
Laxmi Fiscals Investment Private Limited	43.80%	Equity Method
Shalini Fertilizers Limited	30.56%	Equity Method
SV Plaza Private Limited	23.11%	Equity Method
Engee Datasoft Private Limited	0.94%	Equity Method

Source: PTAL

[3] Seven Star Steels Limited has ceased to be a subsidiary of PTAL wef February 10, 2022 as PTAL's shareholding has fallen from 68.08% to 19.08% *Based on standalone provisional numbers for FY2023

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