

July 23, 2024^(Revised)

Essel Mining & Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,500.00	1,500.00	[ICRA]A1+; Reaffirmed
Total	1,500.00	1,500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Essel Mining & Industries Limited's (EMIL) status as a strategically important entity to the Aditya Birla Group and the demonstrated funding support that the company has received from the Group over the years. EMIL holds a sizeable shareholding in multiple listed Aditya Birla Group entities, both through its own standalone books and its wholly-owned subsidiary, IGH Holdings Pvt. Ltd. (IGH). As on March 31, 2024, the market value of such listed investments stood at ~Rs. 35,707 crore, ensuring high financial flexibility for EMIL. ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL if necessary, given the strategic importance derived from its sizeable equity holdings in key Group businesses.

The rating also reflects EMIL's established presence in the coal mining business with the company operating as a mine development and operator (MDO) for two large coal mines of Coal India Limited (Bhubaneswari and Rajmahal mines), with a cumulative capacity of 45 million tonnes per annum (mtpa), and one coal mine of THDC India Limited having a capacity of 5.6 million tonnes per annum (mtpa). Additionally, EMIL has a renewable energy portfolio of 150 MW, contributing to stable earnings. The rating also considers the company's comfortable liquidity profile, supported by sizeable cash/bank/liquid investment balance of ~Rs. 1,395 crore on a consolidated basis as on March 31, 2024.

After the closure of the highly profitable iron ore mining business, which contributed over 80% of the consolidated operating profits between FY2019 and FY2022, the company's earnings plummeted steeply from FY2023 and is expected to remain subdued over the next few years. EMIL refrained from aggressive bids in the Odisha iron ore auctions and was unable to secure any iron ore mines. Subsequently, the company announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) and diamond mining sectors to rebuild its mining portfolio. However, regulatory clearances for the diamond mining project were rejected, and the Hon'ble High Court of Madhya Pradesh has directed the company to halt all mining/construction activities without prior permission, adding significant uncertainty. While EMIL has conveyed to the local state government that it does not seek an extension of the Letter of Intent, which already lapsed in June 2023, ICRA will continue to monitor the developments in this regard. At present, the cumulative value of investments in greenfield mining projects is ~Rs. 6,000-6,500 crore (including only moving projects)¹. Of this, ~Rs. 3,500-4,000 crore is towards the development of the greenfield commercial coal mining project at Bandha (PRC² of 7.5 mtpa), ~Rs. 700 crore towards the development of the Amelia coal MDO (PRC of 5.6 mtpa), and ~Rs. 1,800 crore is for the development of the Subhadra coal MDO (PRC of 15.0 mtpa).

The large investment pipeline in these greenfield mines exposes the company to execution risks. ICRA notes that execution risks are partly mitigated due to the demonstrated experience of the Aditya Birla Group in this field. Besides, the long track

¹ ICRA has not factored in the execution of Bunder in its assessment as the project remains stalled as of now due to regulatory hurdles

² Peak rated capacity

record of successfully managing the existing MDO assets has enabled EMIL to operationalise the Amelia coal MDO project much ahead of its schedule.

While funding risks are somewhat alleviated due to the company's strong parentage and demonstrated track record in the mining business, EMIL's debt levels are expected to increase over the medium term with its multi-year debt-funded capex. With EMIL's earnings unlikely to improve meaningfully over the near to medium term during the project execution phase, the company's leverage indicators are expected to weaken from the levels witnessed during the iron ore mining period. Moreover, EMIL's rising debt levels over the near to medium term could also weaken the net external debt/market value of listed investment cover, thereby potentially affecting its financial flexibility.

EMIL holds a ~54% (on a fully diluted basis) equity stake in Novel Jewels Limited (NJL), which was incorporated in September 2022 as the jewellery retail arm of the Aditya Birla Group. Although the Group has committed to invest ~Rs. 5,000 crore over the medium term to grow this business, ICRA understands that EMIL's support to the jewellery retail arm will be limited to some extent (Rs. 148 crore has been invested until March 31, 2024). Any substantial support to NJL from EMIL by leveraging its balance sheet will remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

EMIL's strategic importance is demonstrated through the consistent financial support from the Aditya Birla Group – Over the years, EMIL has made substantial investments in the Aditya Birla Group entities through its wholly-owned subsidiary, IGH. Given the sizeable quantum of these holdings, EMIL remains a strategically important company to the Aditya Birla Group, which supports its rating.

ICRA notes that between FY2019 and FY2025, EMIL has received a cumulative Rs. 7,902 crore of funding support from the Aditya Birla Group through a combination of rights issues of Rs. 4,842 crore and compulsorily convertible debentures (CCDs) of Rs. 3,060 crore. These inflows have majorly been mobilised in IGH to fund its various investment requirements. ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL should there be a need.

Established presence in the coal mining business – EMIL is one of the largest private coal miners in India, operating three coal assets as MDO, the 28-mtpa Bhubaneswari Coal Mine in Odisha for the Mahanadi Coalfields Limited, the 17-mtpa Rajmahal coal mine in Jharkhand for the Eastern Coalfields Limited and the 5.6-mtpa Amelia coal mine in Madhya Pradesh for THDC India Limited. Apart from EMIL, the Aditya Birla Group also has substantive coal mining expertise with Hindalco and Ultratech Cement, both operating captive coal mines.

Earnings from the Bhubaneswari Coal Mine will diminish from the current fiscal year as the contract period concludes. However, production at the Amelia Coal Mine, which commenced in March 2023, is expected to gradually offset the earnings previously generated from the Bhubaneswari Coal Mine.

Stable earnings from the renewable energy generation portfolio – EMIL has a renewable energy portfolio of 150 MW, with an average vintage of around ten years. These assets are generating a stable EBITDA of Rs. 100-110 crore annually. ICRA notes that EMIL's power generation assets have entirely paid off its long-term debt.

High financial flexibility and comfortable liquidity profile derived from EMIL's large investment portfolio, sizeable cash and liquid investment balance – As on March 31, 2024, the market value of EMIL's equity holdings (held through its own standalone books and through IGH) in key listed entities of the Aditya Birla Group like Hindalco Industries Limited, Grasim Industries Limited, Aditya Birla Fashion and Retail Limited, Aditya Birla Capital Limited, Century Textiles and Industries Limited and Vodafone Idea Limited stood at ~Rs. 35,707 crore. This imparts increased financial flexibility to EMIL, as indicated by its demonstrated ability to borrow at competitive interest rates. Besides the company's financial flexibility, EMIL's liquidity profile is supported by its sizeable cash and liquid investment balance of ~Rs. 1,395 crore outstanding on a consolidated basis as on March 31, 2024.

Credit challenges

Earnings profile to remain subdued over the next few years following the closure of the highly profitable iron ore mining business – EMIL’s iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021. After the closure of the highly profitable iron ore mining business, which contributed over 80% of the consolidated operating profits between FY2019 and FY2022, the company’s earnings profile plummeted steeply from FY2023 and is expected to remain subdued over the next few years. With the intention of rebuilding its mining portfolio, its operating profits are unlikely to improve significantly over the near to medium term and would be largely driven by modest earnings from the renewable energy segment, operating coal mining MDOs, pellet manufacturing businesses and dividend income from the investee companies.

Exposure to significant project execution risks associated with foray into large greenfield mining projects – ICRA notes that EMIL refrained from making aggressive bids in the Odisha iron ore auctions and was unable to secure any iron ore mines, including its most profitable 6.28-mtpa jilling iron ore block. Subsequently, it has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) sector to rebuild its mining portfolio. The cumulative value of investments in these greenfield mining projects stood at ~Rs. 6,000-6,500 crore (includes only moving projects), which includes the coal mining projects at Bandha, Amelia and Subhadra. Such a sizeable capex plan in greenfield mines, having long gestation periods, exposes the company to execution risks. However, the Aditya Birla Group’s demonstrated track record of developing and operating coal mines partly mitigates execution risks in the upcoming greenfield coal mining projects.

Leverage expected to increase over the near to medium term as the company deploys sizeable capital in rebuilding its mining portfolio – EMIL’s debt levels are expected to increase over the medium term with its multi-year debt-funded capex of ~Rs. 6,000-6,500 crore (including only moving projects). With EMIL’s earnings unlikely to improve significantly over the near to medium term during the project execution stage, the company’s leverage indicators are expected to weaken from the levels witnessed during the iron ore mining period. Moreover, over the near to medium term, EMIL’s rising debt levels could also weaken the net external debt/market value of listed investment cover, thereby potentially affecting its financial flexibility.

Liquidity position: Adequate

As on March 31, 2024, EMIL had a free cash and liquid investment balance of around Rs. 1,395 crore on a consolidated basis. Moreover, as on March 31, 2024, EMIL had an equity portfolio of around Rs. 35,707 crore in various listed entities of the Aditya Birla Group, which provides a high degree of financial flexibility. However, with the capital deployment in the greenfield mining projects expected to gather pace going forward, and EMIL’s earnings profile expected to remain subdued, the company’s free cash flows are expected to slip into the negative territory for a few years until the greenfield assets ramp up and start generating adequate returns. Consequently, given these sizeable capex plans, EMIL’s liquidity has been assessed as adequate.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on EMIL’s rating could arise if its net external debt (excluding CCD) exceeds 25% of the market value of listed equity investments on a sustained basis. Additionally, deterioration of the company’s consolidated liquidity profile due to expected retained cash flows from operating businesses, available unencumbered cash and liquid investment balance, undrawn lines of credit (working capital and tied-up project debt), and committed funding support from the Group remaining inadequate to meet the scheduled debt service obligations (interest + principal) alongside greenfield capex commitments over the near term, could also impact the rating. Furthermore, significant execution challenges in the ongoing greenfield mining projects, leading to significant time and cost escalations can exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Investment Companies
Parent/Group Support	Parent: Aditya Birla Group ICRA expects the Aditya Birla Group to be willing to extend financial support to EMIL, should there be a need, given the strategic importance that EMIL holds through the sizeable equity holdings of IGH in key businesses of the Group.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EMIL. As on March 31, 2024, the company had seven subsidiaries, two stepdown subsidiary and one associate, which are all enlisted in Annexure-2.

About the company

EMIL, a closely held entity of the Aditya Birla Group, has been mining iron ore in Odisha for more than five decades. EMIL's iron ore mining business ended following the expiry of the Koira mining lease on August 26, 2021. It is one of the country's largest coal mining MDOs. In the recent 2-3 years, the company has announced multiple big-ticket investments in the coal mining (commercial mining and MDO route) sectors to rebuild its mining portfolio.

EMIL is one of the largest manufacturers of noble ferro-alloys in the country, producing ferro-molybdenum and ferro-vanadium at its unit in Gujarat and catering to the domestic special and alloy steel industries. The company also has a renewable energy generation portfolio of 150 MW, with assets spread across four states. EMIL also operates a 75-MW wind-power generation unit in Maharashtra. Additionally, the company has commissioned a solar power generation project of 25 MW under the Rajasthan State Solar Policy, and another 35 MW solar power generation project in Telangana. EMIL's 74% step-down subsidiary, Palace Solar Energy Private Limited, has a 15-MW operating solar power plant in Gujarat.

Apart from revenue-generating tangible assets, EMIL, both through its own standalone books and its wholly-owned subsidiary, IGH Holdings Pvt. Ltd., holds a sizeable investment portfolio in various Aditya Birla Group entities. The cumulative value of these listed holdings as on March 31, 2024 stood at ~Rs. 35,707 crore.

Key financial indicators (Audited)

EMIL	Consolidated		Standalone		
	FY2022 (Aud.)	FY2023 (Aud.)	FY2022 (Aud.)	FY2023 (Aud.)	FY2024 (Prov.)
Operating income (Rs. crore)	4,795.5	2,081.9	3806.2	943.2	896.0
PAT (Rs. crore)	1,179.5	6.7	1282.9	142.2	127.8
OPBDITA/OI (%)	41.1%	21.6%	42.7%	0.7%	-16.1%
PAT/OI (%)	24.6%	0.3%	33.7%	15.1%	14.3%
Total outside liabilities/ Tangible net worth+ MI (times)	0.2	0.2	0.1	0.1	0.1
Total debt/OPBDITA (times)	2.2	8.3	1.2	249.9	(12.7)
Interest coverage (times)	6.1	1.3	10.2	0.0	(1.0)

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
			Jul 22, 2024	Jul 31, 2023	Jul 04, 2022	May 30, 2022	May 10, 2021
1 Commercial Paper	Short term	1500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Fund based limits	Short term	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+
3 Non Fund based Facilities	Short term	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Not placed	Commercial Paper	-	-	-	1500.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IGH Holdings Pvt. Ltd.	100%	Full Consolidation
Electrotherm Renewables Pvt. Ltd.	100%	Full Consolidation
Palace Solar Energy Pvt. Ltd. (Step down subsidiary)	74%	Full Consolidation
Rajmahal Coal Mining Ltd.	85%	Full Consolidation
Bhubaneswari Coal Mining Ltd.	74%	Full Consolidation
EMIL Mines and Mineral Resources Ltd.	100%	Full Consolidation
Amelia Coal Mining Limited (Step down subsidiary)	79.39%	Full Consolidation
Subhadra Coal Mining Limited	100%	Full Consolidation
Novel Jewels Limited	61%	Full Consolidation
Living Media India Ltd.	41.50%	Equity Method

Source: Company

Corrigendum

Rationale dated July 23, 2024 has been revised with changes as below:

In the rating history table, Fund based limits and Non Fund-Based Facilities has been included in the instrument column.

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 4547 4829

vikram.v@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@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



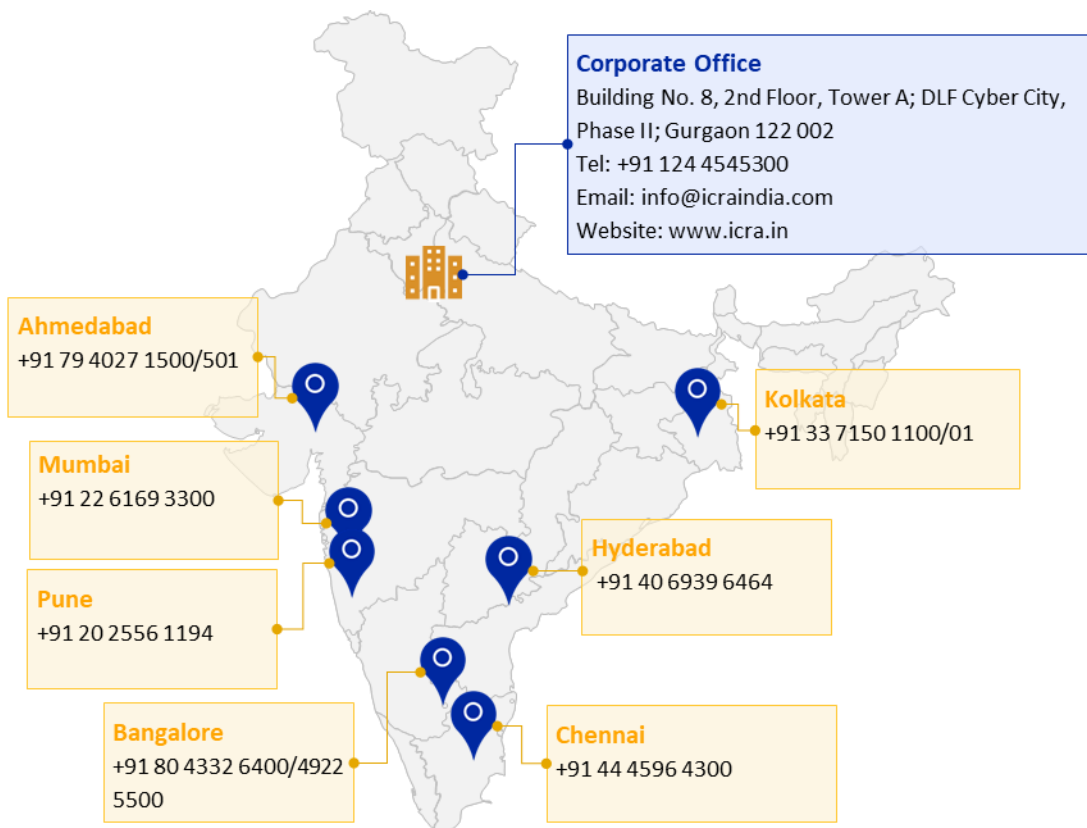
Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.