September 13, 2024

Brahmani River Pellets Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based Term loan	200.00	100.00	[ICRA]A (Stable); reaffirmed
Long Term - Fund Based Cash Credit	250.00	200.00	[ICRA]A (Stable); reaffirmed
Long Term – Non-fund Based Limit	280.00	280.00	[ICRA]A (Stable); reaffirmed
Long Term – Interchangeable	(250.00)^	(200.00)^	[ICRA]A (Stable); reaffirmed
Total	**730.00**	**580.00**	

**Instrument details are provided in Annexure-I; ^Sub-limit of long-term fund-based facility*

Rationale

The reaffirmed rating factors in Brahman River Pellets Limited's (BRPL) position as one of the largest pellet manufacturers in India, with a capacity of 4.7 million tonnes per annum (mtpa) for the beneficiation plant and a pellet plant capacity of 4 mtpa. The rating also takes into account BRPL's favourable operating profile with the presence of a 230-km long slurry pipeline connecting its beneficiation plant in the iron-ore-rich Barbil region to its pellet plant in Jajpur, Odisha, resulting in significant freight cost savings. Additionally, the company enjoys location-specific advantages, owing to the proximity of its beneficiation plant to iron ore mines and the pellet plant being closer to steel mills and ports. BRPL is a joint venture (JV) among JSW Techno Projects Management Limited (JTPML; 49% shareholding in BRPL), Thriveni Pellets Private Limited (TPPL; 49%) and Mitsun Steel Private Limited (MSPL; 2%). The company benefits from the extensive experience of the Thriveni Group in the iron ore mining business and the JSW Group in the steel sector. The rating also considers the company's comfortable capital structure and coverage metrics, aided by the healthy net worth base and low debt levels. As on March 31, 2024, the company's leverage was negative on a net debt basis, supported by a free cash/bank/liquid investment balance of ~Rs. 143 crore. Steady accruals, along with no major capex plans over the near term, will sustain BRPL's comfortable capital structure and coverage metrics going forward.

While BRPL receives a fixed margin of Rs. 350 per MT over and above the cost of production, it does not get to retain any upside of commodity prices which leads to moderate returns indicators (core RoCE of 2.3% in FY2024). Besides, benefits arising on account of capex done towards cost savings/efficiency improvement initiatives is not retained by BRPL as it is obligated to work on a fixed margin basis which further tempers its return indicators. However, ICRA notes that the company is insulated from any adverse price fluctuation, mitigating any downside risks. The rating also considers BRPL's exposure to risks associated with iron ore availability. Nevertheless, ICRA notes that BRPL's competitive advantages over other iron ore consumers stem from its low transportation costs and long-term linkage with OMC Limited (Odisha Mining Corporation), mitigating the availability risks to a large extent. BRPL's pellet offtake and cash flows also remain exposed to the cyclicality in the steel sector in the absence of any volume offtake agreements with the shareholders.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectation that BRPL's capital structure and coverage metrics will remain healthy, aided by steady accruals owing to its fixed-margin agreement with shareholders along with low debt levels.

Key rating drivers and their description

Credit strengths

Favourable operating profile; one of the largest pellet manufacturers in India – BRPL operates a 4.7-mtpa beneficiation plant at Barbil (Odisha) and a 4-mtpa pellet plant at Jajpur (Odisha). The beneficiation plant is strategically located at Tanto, Barbil, which is surrounded by iron ore mines. BRPL procures iron ore fines from mines located within a radius of 25 km. The beneficiation and pellet plants are connected by a 230-km-long underground slurry pipeline, reducing the freight costs significantly. The pellet plant is located at Kalinganagar Industrial Complex, which is the steel hub of eastern India and is located close to India's eastern coast, which facilitates both export and coastal shipping of pellets.

Comfortable capital structure and coverage metrics – The company's net worth base remains healthy, which, coupled with low debt levels, has resulted in a comfortable capital structure, evidenced by a gearing of 0.1 times as on March 31, 2024. The company's coverage indicators also remained healthy, reflected by interest coverage of 17.3 times and debt service coverage ratio of 4.4 times in FY2024. As on March 31, 2024, the company's leverage was negative on a net debt basis, supported by a free cash/bank/liquid investment balance of ~Rs. 143 crore. Steady accruals, along with no major capex plans over the near term, will sustain the company's comfortable capital structure and coverage metrics going forward.

Extensive experience of shareholders – BRPL is a JV among JTPML, TPPL and MSPL. While the JSW Group is one of the largest steel producers in India, the Thriveni Group has extensive experience in mining operations in Odisha.

Credit challenges

Moderate return on capital employed – BRPL was acquired by JTPML, TPPL and MSPL in February 2018. These shareholders purchase pellets from BRPL under the POA, wherein they pay a fixed margin of Rs. 350 per MT over and above the cost of production (also includes finance cost). Given the fixed margin under the POA (pellet offtake agreement), the company does not get to retain any upside of commodity prices which leads to moderate returns indicators (core RoCE of 2.3% in FY2024). Besides, benefits arising on account of capex done towards cost savings/efficiency improvement initiatives is not retained by BRPL as it is obligated to work on a fixed margin basis which further tempers its return indicators.

Exposure to risks associated with availability of iron ore – BRPL procures iron ore fines from mines in Barbil and has competitive advantages over other iron ore consumers in the region due to low transportation costs. The company's annual fines requirement is ~5 MT at a 100% utilisation level. A large part of this requirement will be procured from nearby mines in the Barbil region, including Odisha Mining Corporation Limited. However, any major disruption in the supply of iron ore fines in the Barbil region would remain a key credit monitorable, as the benefits of the slurry pipeline remain contingent on the company's ability to secure raw material supply from the region.

Exposure to cyclicality in steel sector – Iron ore pellet is used as an input in steel manufacturing process. BRPL, like other pellet manufacturers, is exposed to the cyclicality inherent in the steel sector. A prolonged downturn in the steel industry could exert pressure on BRPL's capacity utilisation levels and impact its cash flows in the absence of any volume offtake agreements with the shareholders.

Liquidity position: Strong

BRPL's liquidity position is assessed as strong, with the expected healthy cash flow from operations, free cash/bank/liquid investment balance of ~Rs. 143 crore as on March 31, 2024, and an adequate buffer in the form of unutilised working capital limits. ICRA expects the company to meet its capex commitments through internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – BRPL's rating could be upgraded if there is substantial improvement in sales volumes and profitability while maintaining a healthy credit profile and liquidity position.

Negative factors – Pressure on BRPL's rating could arise in case of any weakening in cash flows due to a downward revision in profit margin or if there is any large cash outflow to its shareholders, adversely impacting the liquidity position. A specific trigger for a rating downgrade would be if the total debt-to-operating profit ratio exceeds 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

BRPL was incorporated in 2006 by Stemcor India Private Limited (SIPL), a wholly-owned subsidiary of the Stemcor Group, UK. The company was later transferred to Aryan Mining and Trading Corporation Private Limited (Aryan Mining). BRPL has a 4.7-mtpa iron ore beneficiation plant in Barbil, Odisha and a 4-mtpa pellet plant at Kalinganagar Industrial Complex in Jajpur, Odisha. The two units are connected via a 230-km slurry pipeline to transport iron ore concentrate from the beneficiation plant to the pellet plant.

BRPL started commercial production in June 2013. However, in FY2016 and FY2017, weak pellet demand and a drop in realisation resulted in losses. On December 15, 2017, TPPL, a 51% subsidiary of Thriveni Earthmovers Private Limited (TEPL), JTPML, a JSW Group company and MSPL signed a binding shareholders' agreement to acquire BRPL in the ratio of 49:49:2, respectively from Aryan Mining. The company was taken over on February 23, 2018, by the current shareholders with TPPL having the management control.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	2,599.2	2,473.9
PAT	26.2	38.7
OPBDIT/OI	4.9%	4.2%
PAT/OI	1.0%	1.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.4	0.8
Interest coverage (times)	16.0	17.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: 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

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-Term	100.00	**Sep 13, 2024**	**[ICRA]A (Stable)**	**Jul 31, 2023**	**[ICRA]A (Stable)**	**Jun 27, 2022**	**[ICRA]A (Negative)**	**May 17, 2021**	**[ICRA]A (Stable)**
							Jan 04, 2023	**[ICRA]A (Stable)**		
Cash credit	Long-Term	200.00	**Sep 13, 2024**	**[ICRA]A (Stable)**	**Jul 31, 2023**	**[ICRA]A (Stable)**	**Jun 27, 2022**	**[ICRA]A (Negative)**	**May 17, 2021**	**[ICRA]A (Stable)**
							Jan 04, 2023	**[ICRA]A (Stable)**		
Non-fund based limit	Long-Term	280.00	**Sep 13, 2024**	**[ICRA]A (Stable)**	**Jul 31, 2023**	**[ICRA]A (Stable)**	**Jun 27, 2022**	**[ICRA]A (Negative)**	**May 17, 2021**	**[ICRA]A (Stable)**
							Jan 04, 2023	**[ICRA]A (Stable)**		
Interchangeable	Long-Term	(200.00)	**Sep 13, 2024**	**[ICRA]A (Stable)**	**Jul 31, 2023**	**[ICRA]A (Stable)**	**Jun 27, 2022**	**[ICRA]A (Negative)**	**May 17, 2021**	**[ICRA]A (Stable)**
							Jan 04, 2023	**[ICRA]A (Stable)**		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based Term loan	Simple
Long Term – Fund Based Cash credit	Simple
Long Term – Non-fund Based Limit	Very simple
Long Term – Interchangeable	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	**Long-Term – Fund based - Term Loan**	FY2023	NA	FY2029	100.00	[ICRA]A (Stable)
NA	**Long Term - Fund Based Cash Credit**	NA	NA	NA	200.00	[ICRA]A (Stable)
NA	**Long Term – Non-fund Based Limit**	NA	NA	NA	280.00	[ICRA]A (Stable)
NA	**Long Term – Interchangeable**	NA	NA	NA	(200.00)	[ICRA]A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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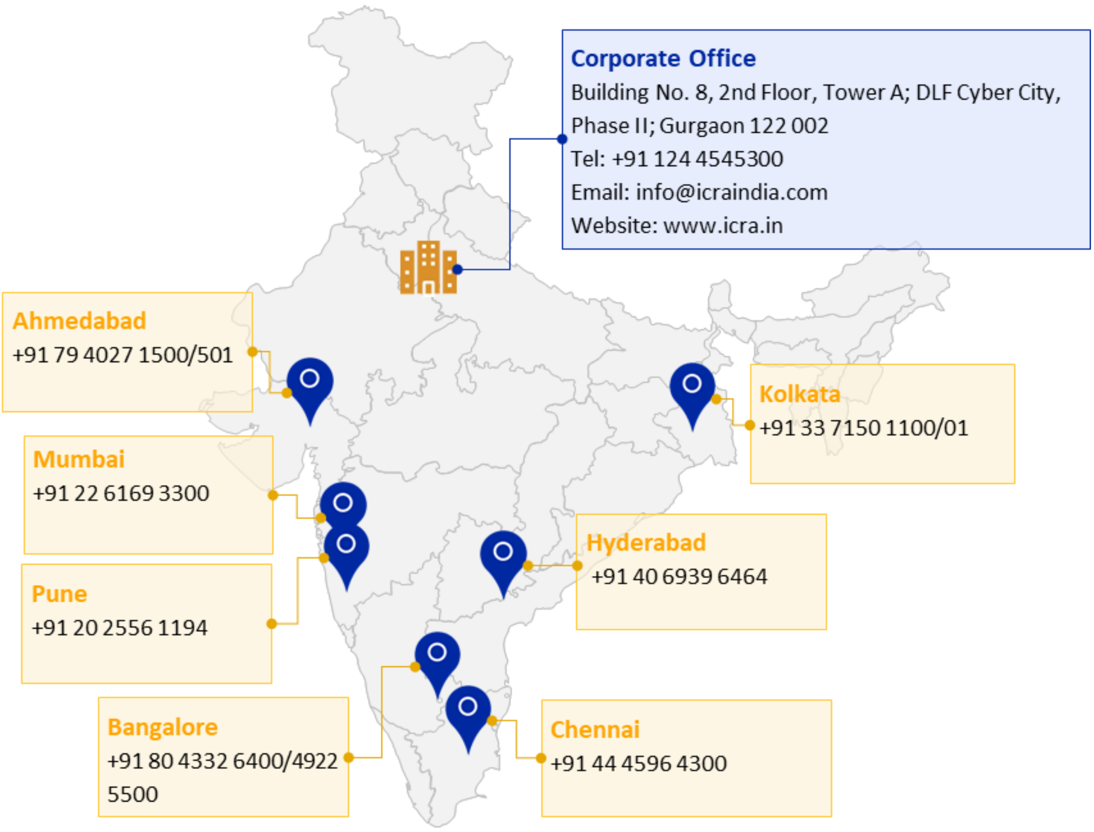

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