September 24, 2024

# The Sandur Manganese & Iron Ores Limited: Bank facilities reaffirmed and removed from rating watch with developing implications; non-convertible debentures assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long term - Fund based - Term loan** | 137.00 | 137.00 | [ICRA]A+ (Stable); reaffirmed and removed from rating watch with developing implications |
| **Long term – Fund-based - Cash credit** | 10.00 | 10.00 | [ICRA]A+ (Stable); reaffirmed and removed from rating watch with developing implications |
| **Short term non-fund based facilities** | 285.00 | 285.00 | [ICRA]A1; reaffirmed and removed from rating watch with developing implications |
| **Proposed NCD**** | - | 450.00 | [ICRA]A+ (Stable); assigned |
| **Total** | **432.00** | **882.00** | |

**Instrument details are provided in Annexure-I; **Yet to be placed*

## Rationale

ICRA had earlier placed the ratings of The Sandur Manganese & Iron Ores Limited (SMIORE) on 'Rating Watch with Developing Implications' after its board of directors had approved the strategic business acquisition of Arjas Steel Private Limited (ASPL) through the purchase of 80% equity share capital at an enterprise value of ~Rs. 3,000 crore. The equity value payable by SMIORE will be in the range of Rs. 1,600-1,800 crore. Accordingly, the company had entered into a share purchase agreement with ASPL's existing owners, ADV Partners. ICRA has now removed the Rating Watch with Developing Implications, following greater clarity on the funding mix for the acquisition along with the receipt of key approvals for the transaction. The proposed acquisition is likely to be concluded in the next one month and shall be funded by a debt equity mix of 75:25.

While arriving at the ratings, ICRA has factored in the proposed acquisition of ASPL, including its wholly-owned subsidiary, Arjas Modern Steel Private Limited (AMSPL), and has considered the consolidated financial profile of SMIORE and ASPL. ICRA notes that SMIORE's foray into the special steel business through the ASPL acquisition remains an important milestone as it provides the foundation to build a meaningful steel portfolio over the medium to long term. ASPL's demonstrated earnings track record and its presence in the niche auto-grade steel segment, where the competitive pressures remain lower than carbon steel, will support the consolidated business risk profile following its integration into the SMIORE umbrella. Notwithstanding the proposed debt-funded acquisition, the consolidated financial risk profile of SMIORE, despite moderating to a certain extent, will continue to be healthy.

The company's leverage profile, which remained negative on a net debt basis over FY2022-FY2024, will witness significant increase owing to addition of debt to fund the acquisition along with the inclusion of debt on the books of ASPL in lieu of the proposed acquisition. Nonetheless, the net leverage (net debt/OPBDITA) of the consolidated entity will remain healthy, supported by an expected increase in operating profits from SMIORE's mining business. Besides, ASPL's demonstrated earnings track record and the expected improvement in its performance from the current fiscal arising from efficiency improvement and debottlenecking capex will further support the consolidated operating profits. 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 reaffirmation of the ratings factors in the established track record of SMIORE 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 117 million tonnes (mt) and manganese ore reserves of 17 mt, which, along with its mining lease validity till December 31, 2033, provides long-term revenue visibility to its mining operations. The ratings also note its comfortable liquidity position, reflected in the large free cash/bank/liquid investment balance of ~Rs. 981 crore as on March 31, 2024, which imparts a high degree of financial flexibility to the company.

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 the prices of iron ore, manganese ore and ferro alloys. The steel business of ASPL, like other steel manufacturers, will remain exposed to the cyclicality inherent in the steel industry, besides being susceptible to the cyclical downturns in the automobile industry, given its high dependence on the sector. 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. This has led to sub-optimal capacity utilisation at the coke oven batteries, which has lowered the earnings from this segment, thus adversely impacting the business return indicators of the company to some extent.

ICRA had earlier noted the recent ruling of the Supreme Court of India which upheld the state governments' power to tax mineral rights and mineral-bearing lands under Entries 49 and 50 of List II in the Constitution's Seventh Schedule. On August 14, 2024, the Supreme Court ruled that states have the discretion to decide on the retrospective application of the tax. However, any tax demand will not impact transactions conducted before April 1, 2005. In case of retrospective tax demand, payments will be spread over 12 years, starting from April 1, 2026. Additionally, interest and penalties on demands for the period before July 25, 2024, will be waived for all assesses. The states are yet to come out with their decision on the imposition of such retrospective tax. ICRA will assess the impact of the Supreme Court ruling on the company, given that it is involved in mining operations, and will take appropriate action when further clarity emerges from the states on the taxation of mineral rights.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit metrics would continue to be comfortable, going forward, notwithstanding the proposed debt-funded acquisition of ASPL.

## Key rating drivers and their description

### Credit strengths

**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 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 117 mt of iron ore and around 17 mt of manganese ore. It has an annual production capacity of 3.81 mtpa of iron ore and 0.58 mtpa of manganese ore. ICRA takes comfort from the vast reserves, the long validity of the mining licence and the 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 credit metrics and healthy liquidity –** The company's low debt levels compared to its sizeable net worth have resulted in a comfortable capital structure, reflected in a gearing of 0.1 times as on March 31, 2024. The company's overall leverage stood negative on a net debt basis as on March 31, 2024, supported by a large free cash/bank/liquid investment balance of ~Rs. 981 crore, leading to a comfortable financial risk profile. Notwithstanding the proposed debt-funded acquisition, the consolidated financial risk profile of SMIORE, despite moderating to a certain extent, will continue to be healthy. The company's leverage profile, which remained negative on a net debt basis over FY2022-FY2024, will witness significant increase owing to addition of debt to fund the acquisition along with the inclusion of debt on the books of ASPL in lieu of the proposed acquisition. Nonetheless, the net leverage (net debt/OPBDITA) of the consolidated entity will remain healthy, supported by an expected increase in operating profits from SMIORE's mining business. Besides, ASPL's demonstrated earnings track record and the expected improvement in its performance from the current fiscal arising from efficiency improvement and debottlenecking capex will further support the consolidated operating profits. 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.

**Susceptible to volatility in prices of iron ore, manganese ore and ferro alloys; steel business of ASPL to remain vulnerable to cyclicality in steel and automobile sectors –** 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. The steel business of ASPL, like other steel manufacturers, will remain exposed to the cyclicality inherent in the steel industry, besides remaining susceptible to the cyclical downturns in the automobile industry, given its high dependence on the sector.

**Sub-optimal capacity utilisation and subdued earnings from coke segment affecting business return indicators to some extent –** The increase in coke imports into India and the volatility in coking coal prices have rendered a challenging industry situation for domestic coke manufacturers, including SMIORE. As a cautious approach, the company has significantly cut 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, thus affecting the business return indicators of the company to some extent.

## Liquidity position: Adequate

SMIORE's liquidity profile remains adequate, reflected in the large free cash/bank/liquid investment balance of ~Rs. 981 crore as on March 31, 2024, which imparts a high degree of financial flexibility to the company. While some part of this liquidity will be used to fund the proposed acquisition of ASPL, the ramp-up of the mining capacities will generate healthy free cash flows going forward and sustain the liquidity profile of the company.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company is able to report a sustained growth in its earnings which would strengthen the leverage and debt coverage metrics and maintain a comfortable liquidity position.

**Negative factors –** Pressure on SMIORE's ratings could arise in case of any large debt-funded capex/acquisition, resulting in a significant weakening of the leverage and coverage indicators and liquidity position. The ratings could also face pressure due to a material deterioration in the earnings because of unfavourable demand/pricing dynamics. A specific trigger for downgrade would be net debt/OPBDITA of more than 1.5 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology - Mining |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of SMIORE. As on March 31, 2024, the company had one subsidiary and one associate that are enlisted below. Besides, ICRA has also factored in the proposed acquisition of Arjas Steel Private Limited. |

## 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 Sandur, Late Yeshwantrao Hindurao Ghorpade. Mr. Bahirji A. Ghorpade, the 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 the 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, covering 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 0.58 mtpa for manganese ore. In addition, SMIORE manufactures ferro-alloys (silico-manganese and ferro manganese) and coke at its plant in Vyasankare, near Hospet.

The board of directors of the company has also approved the strategic business acquisition of Arjas Steel Private Limited (ASPL) through the purchase of 80% equity share capital at an enterprise value of ~Rs. 3,000 crore.

### Key financial indicators (audited)

| SMIORE | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 2125.8 | 1252.1 |
| **PAT** | 271.1 | 238.6 |
| **OPBDIT/OI** | 19.9% | 25.6% |
| **PAT/OI** | 12.8% | 19.1% |
| **Total outside liabilities/Tangible net worth (times)** | 0.3 | 0.2 |
| **Total debt/OPBDIT (times)** | 0.5 | 0.4 |
| **Interest coverage (times)** | 15.2 | 16.0 |

*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) | Sep 24, 2024 | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| **Term loan** | Long-term | 137.00 | [ICRA]A+ (Stable) | May 07, 2024 | [ICRA]A+; rating watch with developing implications | Feb 26, 2024 | [ICRA]A+ (Stable) | Dec 19, 2022 | [ICRA]A (Stable) | Sep 6, 2021 | [ICRA]A (Stable) |
| | | | | Aug 26, 2024 | [ICRA]A+; rating watch with developing implications | - | - | - | - | - | - |
| **Cash credit** | Long-term | 10.00 | [ICRA]A+ (Stable) | May 07, 2024 | [ICRA]A+; rating watch with developing implications | Feb 26, 2024 | [ICRA]A+ (Stable) | Dec 19, 2022 | [ICRA]A (Stable) | Sep 6, 2021 | [ICRA]A (Stable) |
| | | | | Aug 26, 2024 | [ICRA]A+; rating watch with developing implications | - | - | - | - | - | - |
| **Non-fund based facilities** | Short-term | 285.00 | [ICRA]A1 | May 07, 2024 | [ICRA]A1; rating watch with developing implications | Feb 26, 2024 | [ICRA]A1 | Dec 19, 2022 | [ICRA]A1 | Sep 6, 2021 | [ICRA]A1 |
| | | | | Aug 26, 2024 | [ICRA]A1; rating watch with developing implications | - | - | - | - | - | - |
| **Proposed NCD*** | Long-term | 450.00 | [ICRA]A+ (Stable) | - | - | - | - | - | - | - | - |

**Yet to be placed*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long term – Fund-based - Term loan** | Simple |
| **Long term – Fund-based - Cash credit** | Simple |
| **Short term non-fund based facilities** | Very Simple |
| **Proposed NCD** | 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 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** | FY2018 | NA | FY2028 | 137.00 | **[ICRA]A+ (Stable)** |
| **NA** | **Long term – Fund-based - Cash credit** | NA | NA | NA | 10.00 | **[ICRA]A+ (Stable)** |
| **NA** | **Short term non-fund based facilities** | NA | NA | NA | 285.00 | **[ICRA]A1** |
| **NA** | **Proposed NCD*** | NA | NA | NA | 450.00 | **[ICRA]A+ (Stable)** |

*Source: Company; *Yet to be placed*

*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 |
|---|---|---|
| **Sandur Pellets Private Limited** | 100% | Full Consolidation |
| **Renew Sandur Green Energy Private Limited** | 49% | Equity Method |

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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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