

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

M/S Kamaljeet Singh Ahluwalia

April 03, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Fund Based Facilities- Term Loan	475	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)	Assigned
Total	475		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of M/S Kamaljeet Singh Ahluwalia derive comfort from its long presence in the market and experienced promoters, healthy EBIDTA margins, presence of healthy mining reserves, resourcefulness of proprietor, significant growth in operations and low gearing levels. However, the ratings are tempered by proprietary constitution of the firm, key man risks, customer concentration risk, regulatory risk, lease tenure expiry risk and high amount of advances to group companies. Sustainability of operations and profitability, working capital cycle management and regulatory landscape are the key rating sensitivities.

List of Key Rating Drivers

- Long presence in the market and experienced promoters
- Healthy EBIDTA margins
- Presence of healthy mining reserves
- Resourcefulness of Proprietor
- Significant growth in operations
- Low gearing levels
- Proprietary Constitution of the firm
- Key Man Risks
- Customer Concentration risk
- Regulatory risk
- Lease tenure expiry risk

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- High amount of advances to group companies

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long presence in the market and experienced promoters

Mr. Kamaljeet Singh Ahluwalia, the proprietor has long experience in iron ore mining and beneficiation. His experience of around 30 years in iron ore mining industry has enabled to establish healthy relationship with customers and logistic providers. Mr. Kamal Jeet Singh Ahluwalia only runs the day to day operations of the firm.

Healthy EBIDTA margins

During FY15-17, the mines were working only for two months in FY15, nine months in FY16 (due to suspension of operation owing to Supreme Court's order) and for the full year in FY17. EBIDTA margin was healthy at 20% in FY17 and 37% in 9MFY18. As indicated by the firm, the EBIDTA margin expanded in 9MFY18 on account availing input credit post implementation of GST and higher realisations. PAT margin has declined sequentially mainly on account of higher tax incidence. PAT margin though declines during FY15-17 gradually due to higher tax incidence, the same at 12.6% in FY17 was comfortable.

Presence of healthy mining reserves

The mining deposits available with the firm are around 173.59 million tonnes. This is significantly more than the firm's annual capacity for 2 years, which is the tenor of the rated loan.

Resourcefulness of Proprietor

The proprietor of the firm is very resourceful given that the firm was able to pay Rs.400 crore in FY18 to Govt. of Odisha from internal accruals and also prepay Rs.225 crore of the term loans availed from banks.

Significant growth in operations

The firm's sales are estimated to expand by 37% during FY18 on account of increase in volumes and realisations.

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Low gearing levels

The company has not availed any substantial debt during FY15-17. Thus gearing and debt protection parameters are highly comfortable. The Term Loan availed in FY18 is for payment of dues as per Supreme Court directives to mining companies and leaseholders that have engaged in mining activities without forest or environment clearances to pay public exchequer compensation equivalent to 100% value of the minerals they extracted illegally during 2001-10. KJS has paid Rs.1074.94 Crore to the Odisha Government with respect to this matter. The firm availed term loan of Rs.700 crore in FY18, of which Rs.225 crore has been repaid out of internal accruals. The estimated overall gearing for FY18 is comfortable at 0.5x.

Key Weaknesses

Proprietary Constitution of the firm

The firm KJS is a proprietary firm with Mr. Kamaljeet Singh Ahluwalia being the proprietor. The risk of withdrawal of capital always rests with this type of constitution.

Key Man Risks

The firm is run by Mr.Kamaljeet Singh Ahluwalia (aged 75 years). The entire management and decision making is concentrated with Mr. Kamal Jeet Singh Ahluwalia (though he is assisted at times by Mr. Prashant Singh Ahluwalia who is his brother.) and do not appear to have succession plan. This imparts keyman risk to the firm.

Customer Concentration risk

The company has significant customer concentration risk as the top five customers account for 42% of sales in FY17.

Regulatory risk

The mining sector is highly prone to regulatory risk. The firm's mine was closed during May14-June 15 on account of Supreme Court's order. Further as per the Supreme Court order, the firm had to pay the Govt. of Odisha Rs.1074 crore for illegal mining during 2001-10.

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Lease tenure expiry risk

The mining lease of the firm is to expire in 2020. However the management has indicated that it will be extended by five years. The term loan is however scheduled to be paid by December 2019, i.e. before the expiry of the lease tenure.

High amount of advances to group companies

The firm has advances of Rs.863.4 crore to sister companies of the Alhuwalia group. This works to 57% of the tangible networth as at March 31, 2017.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

M/s Kamaljeet Singh Ahluwalia (KJS) is a proprietorship firm owned by Mr. Kamaljeet Singh Ahluwalia. Mr. Ahluwalia, the founder of the Group, based out of Delhi, had acquired Nuagaon Iron ore mine having an area of 767.284 hectare at village Guali, Barbil, Keonjhar Odisha in the year 1984. The production Capacity of the mine is 5.6 Million Tonnes per annum and the mining operation was commenced in 1993. As on April 1, 2017, the iron ore deposit is 173.59 Million Tonnes. The Mining Lease is going to expire on March 31, 2020; however the management has indicated that it shall be extended for further five years.

Financials (Standalone):

(Rs. crore)

For the year ended / As On	31-03-2016	31-03-2017
	Aud	Aud
Total Operating Income	718.3	1088.0
EBITDA	178.2	226.2
Depreciation	16.6	15.6
Interest	4.1	0.2
PAT	119.4	138.5
Total Debt	0.0	0.0

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Tangible Net worth	1361.7	1515.7
<u>Ratios</u>		
a. EBIDTA Margin	24.81	20.79
b. PAT Margin	16.62	12.62
b. Overall Gearing ratio	0.00	0.00

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Limits-Term Loan	Long Term	475	IVR BBB- / Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. BV Upadhye

Tel: (033) 46022266

Email: bvupadhye@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Term Loan	December 2017	10%	December 2019	475	IVR BBB- /Stable Outlook