

MSPL Limited

Instrument	Amount (Rs. Crore)	Rating Action September 2016
Fund Based – Term Loans	445.00 (enhanced from 319.46)	[ICRA]BBB- (Negative); revised from [ICRA]BBB (stable)
Fund based – Cash Credit	315.00	[ICRA]BBB- (Negative); revised from [ICRA]BBB (stable)
Unallocated	Nil (revised from 25.54)	
Non Fund based	40.00	[ICRA]A3; revised from [ICRA]A3+

ICRA has revised the long-term rating assigned to the Rs. 445.00 crore[^] (enhanced from Rs 319.46 crore) term loans and the Rs. 315.00 crore cash credit facilities of MSPL Limited (“MSPL”/ “the company”)[†] from [ICRA]BBB (pronounced ICRA Triple B) to [ICRA]BBB- (pronounced ICRA Triple B Minus). The outlook on the rating has been revised from Stable to Negative. ICRA has also revised the short-term rating assigned to the Rs. 40.00 crore short-term non fund based facilities of the company from [ICRA]A3+ (pronounced ICRA A Three Plus) to [ICRA]A3 (pronounced ICRA A Three).

For arriving at the ratings ICRA has taken a consolidated view of MSPL along with its subsidiaries – MSPL Maritime Pte Limited and its step-down subsidiary MSPL Diamond Pte Limited on account of synergies and corporate guarantee extended by MSPL on behalf of its subsidiary’s borrowings.

The revision in the ratings takes into consideration the deterioration in MSPL’s revenues, profits and debt coverage metrics during FY2016 due to adverse condition in the iron & steel industry with significant decline in prices of iron ore and pellets. The ratings also factor in the continued weak financial performance of MSPL’s shipping subsidiary (on behalf of which MSPL had extended a corporate guarantee, which was subsequently invoked), resulting in a highly leveraged capital structure and modest coverage metrics on a consolidated level. ICRA believes that the company’s profits and cash flows are likely to remain volatile going forward as well, due to the continued uncertainty in outlook for domestic iron ore prices, given the weak pick-up in domestic steel consumption, moderating the profitability outlook for miners. Further, with the outlook for dry bulk shipping segment remaining depressed, financial support to the subsidiary would continue over the medium term; although, the company is exploring another round of debt restructuring for its subsidiary’s repayments, which if materialized would ease outflows to a significant extent and would be credit positive. ICRA also takes into account the risks arising from operating in the highly regulated iron ore mining industry, and the exposure of margins to volatility in iron ore prices given the inherent cyclicality in end user segments, further exacerbated by the significant inventory holdings of the company in the pellet division, which has lead to inventory losses in the past. These apart, impact of variability in wind speed and grid availability on the PLFs and the counterparty risks in the wind power segment, given the exposure to State Discoms, remain a concern. ICRA also takes cognizance of MSPL’s sizeable contingent liabilities, primarily towards disputed tax claims and the uncertainty over the nature and scale of future capital expenditures.

The ratings, however, take comfort from MSPL’s operation of one of Karnataka’s largest private sector mines with adequate reserves of good quality iron ore and the considerable wind energy generation capacity of 127.8 MW spread across Karnataka, Maharashtra and Gujarat, which augment revenues and cash flows. The ratings take into account the high margin nature of the mining business and the stable domestic prices of iron ore in Karnataka in the current year, given the rising demand from regional steel manufacturers. ICRA notes that the company’s operating profile could be worsened going forward, if some of these steel manufacturers, who do not have any captive mines as on date, are successful in securing iron ore mine/mines in the upcoming auction of category C mines in Karnataka. The ratings also take into account the enhancement in the permissible annual production of iron ore from 0.9 MMTPA to 1.8 MMTPA during the current financial year which supports growth prospects and the expected reduction in the cost with outsourcing of the mining operations to a third-party contractor. The ratings also derive comfort from the liquid investments maintained by the company and

[^] 100 lakh = 1 crore = 10 million

[†] For a complete rating scale and definitions, please refer to ICRA’s website (www.icra.in) or other ICRA rating publications.



the established track record of the Baldota Group of companies of over six decades in the iron ore mining industry.

Company Profile

MSPL Limited is the flagship of the Karnataka-based Baldota group, and was promoted by the late Mr. A.H. Baldota in 1962. The company is currently managed by Mr. Narendrakumar Baldota and his two sons. The group has footprints in diverse businesses such as renewable energy, shipping and logistics, steel and industrial gases. MSPL operates one of the largest private sector mines in Bellary District of Karnataka, the Vyasnakere Iron Ore Mine (VIOM). Spread across 348 Ha, VIOM is a fully mechanized open-cast mine and commenced operation in 1962. MSPL also has considerable wind power generation capacity of 127.8 MW spread across Maharashtra, Gujarat and Karnataka. MSPL is an ISO 9001:2000, ISO 14001:1996 and OHSAS 18001:1999 certified company.

Recent Results

During FY2016, the company reported a net loss of Rs. 41.54 crore on an operating income of Rs. 554.60 crore as against a net profit of Rs. 88.70 crore on an operating income of Rs. 878.39 crore during FY2015.

September 2016

For further details please contact:

Analyst Contacts:

Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

R Srinivasan (Tel. No. +91 44 4596 4315)
r.srinivasan@icraindia.com

Ritika Periwal (Tel. No. +91 80 4922 5562)
ritika.mundhra@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500