

Press Release

BGR Deco Consortium Private Limited

March 24, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	40.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.100.00 Cr bank facilities of BGR Deco Consortium Private Limited (BDCPL). The outlook is '**Stable**'.

Rating Rationale

The rating reflects sustained improvement in the group's business risk profile marked by substantial increase in the turnover and absolute profitability levels thus translating into higher cash accruals, which is backed by increasing production capacity led by steep demand in the power sector due to coal crisis. The rating also takes into account the experienced management with long-established track record of the group, established client relationship with presence of long-term contracts with strong counterparties, and presence of large fleet of heavy equipment with high entry barriers into industry. The rating draws comfort from the robust order book providing long-term revenue visibility, comfortable capital structure and debt coverage metrics, satisfactory operating cycle, adequate liquidity and positive industry outlook. However, the ratings remain constrained by need of continuous debt-funded capex towards equipment purchase, client concentration risk, tender-driven nature and regulatory risk in the mining industry.

About Company

Incorporated in June, 2020, BGR Deco Consortium Private Limited (BDCPL) is a joint venture of BGR Mining & Infra Limited (BGRMIL) and Dhansar Engineering Company Private Limited (DECO), in the ratio 51:49 respectively. Initially, the JV was formed as association of persons (AOP) but on Mar, 2022, the AOP was taken over by Private Limited company with the same shareholding pattern. The company has bagged a large size tender from Northern Coalfields Limited and the same is subcontracted to BI Mining Private Limited (BMPL). The company is currently headed by Mr. Harsh Agarwalla from DECO and Mr. Induru Dheeraj from BGRMIL.

About the Group

Incorporated in 2011, BGR Mining & Infra Limited (BGRMIL) is a Hyderabad based company majorly engaged in two business segments – Contract Mining & Mine Development and Operations (MDO). BGR (formerly, B Girijapathi Reddy & Co.) was set up in 1988 as a partnership firm by Mr. Girijapathy Reddy, Mr. Bathina Umapathy Reddy and Mr. I Sudhakara

Reddy. It was reconstituted as a private limited company in 2011. The company has a strong presence across multiple states with a fleet of over 1,200 HEMM (Heavy Earth Moving Machineries). The company is currently headed by Mr. B. Umapathy Reddy, Mr. I. Sudhakara Reddy and the second generation directors.

Incorporated in March 2016, BI Mining Private Limited (BMPL) is a Hyderabad, Telangana based company. The company is currently executing the entire work of overburden removal at Bina Open Cast Project (OCP) of Northern Coalfields Limited (NCL) subcontracted to them by BGR DECO Consortium Private Limited (BDCPL). Work execution is being carried out through leased and hired vehicles. The company is currently headed by Mr. Umapathy Reddy Bathina and Mr. Induru Sudhakara Reddy.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at this rating, Acuité has revised the approach to include BGR Mining & Infra Limited (BGRMIL) into the 'BGR Group' as the company has a 51 per cent stake in the entity- BGR Deco Consortium Private Limited (BDCPL); BI Mining Pvt Ltd has given a corporate guarantee for the bank limits availed by BGR Mining & Infra Ltd. Moreover, BGR Mining & Infra Ltd has also given a corporate guarantee for the bank limits availed by BGR DECO Consortium Ltd. Hence, Acuité has consolidated the business and financial risk profiles of BGR Mining & Infra Limited (BGRMIL), BGR Deco Consortium Private Limited (BDCPL) and BI Mining Pvt Ltd together referred to as the 'BGR Group'. The consolidation is in the view of common management, strong operational linkages between the entities and a similar line of business.

Key Rating Drivers

Strengths

Steady improvement in the business risk profile; Production and offtake to increase in 4QFY23 buoyed by robust order book

The group has achieved revenues of Rs. 1861.88 Cr in FY2021 which further increased to 2813.85 Cr in FY2022 on account of stabilization of operations. Over Burden Removal (OBR) was consistently high throughout the year with large strips of OB excavated, after Covid posed slowdown. The group maintained a consistent growth trajectory in OBR throughout FY22, which further increased in the current year. Further, the group has already achieved revenues of Rs ~2321.82 Cr till December 2022(Prov). Acuité believes that the increasing OBR will facilitate faster production of coal in future and hence a positive revenue growth expected would aid the business risk profile going forward. BGRMIL had a robust order book position of Rs. 46,703.01 Cr. as on 1st of February 2023. The order book is diversified across three major verticals namely mining (0.9%), MDO (98.92%) and balance from irrigation (0.18%). The group is focussing on MDO contracts which gains relatively better margins than OB removal contracts. This has helped the group achieve robust EBITDA in FY2022, which further improved in the current year. The EBITDA margin of the group improved in FY22 to 23.53 per cent in FY2022 as compared to 20.41 per cent in the previous year. The PAT margins also increased to 7.43 per cent in FY2022 as against 1.44 per cent as on FY2021. The ROCE levels stood at a comfortable level of about 32.37 per cent in FY2022 as against 15.03 per cent in FY2021, even after maintaining large fleet of heavy vehicle. Acuité's expectation of India's q-o-q higher coal production in 4QFY23 is based on the past trends and the government's enhanced focus to increase the pace of coal production to meet the anticipated incremental demand amid likely extreme temperatures during this summer season, especially by the power sector. The Ministry of Coal has directed to increase coal inventory at the pitheads and thermal power plants together to 110 million tonnes (mt) by March 2023 from around 65mt. The higher production and offtake shall also be supported by multiple efforts by the Ministry of Coal to augment the domestic coal supply by way of additional mines offered, captive coal mines and improvement in coal evacuation logistics among others.

Long-term Contract ; Low Offtake Risk; Escalation clause in contracts

BGRMIL has entered into a long-term contract of 25 years as a mine developer-cum-operator (MDO) for the supply of coal to West Bengal Power Development Corporation Limited (WBPDCCL) (rated at ACUITE A-/Stable/A2+) from Pachhwarra open cast project in Pachhwarra North Coal Block in Jharkhand, leading to limited offtake risk for BGRMIL. Acuité assesses the offtake risks associated with the MDO business to be low, given the group enters into firm agreements with annual target supply. The agreement also protects BGRMIL from price volatility as the pricing formula to cover any cost escalation has been agreed upon. Additionally, coal demand is likely to continue to increase in the medium-to-long term. The major cost for the group for such services is the diesel cost for plying the equipment, thus exposing the group to volatility in diesel prices. While the diesel costs are pass-through in nature, there is generally a time-lag before the same can be built into the billing cycle. However, the group has received escalation for the work done at Paachwarra North coal block over the past couple of years in the current year, which has in turn boosted the profitability levels in the current year. Further, the cost of labour which is another major cost has an escalation clause.

Healthy financial risk profile

The group's financial risk profile is marked by very high networth base, comfortable gearing and strong debt protection metrics. The adjusted tangible net worth of the group improved to Rs. 943.32 Cr as on March 31, 2022 from Rs.764.63 Cr as on March 31, 2021, aided by sizeable accretion to reserves which kept the capital structure conservative, as reflected by a low gearing of 0.45 times as on March 31, 2022 following the repayment of the unsecured loan of Rs 31.22 Cr. Acuité has considered unsecured loans to the tune of Rs.63.67 Cr as on March 31, 2022 as part of networth. Despite the on-going debt funded capex, gearing is expected to remain below unity over the medium term with gradual repayment of term debt and steady accretion to reserves. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.09 times as on March 31, 2022 as against 1.78 times as on March 31, 2021. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 5.36 times and Debt Service Coverage Ratio at 1.89 times as on March 31, 2022. The surge in earnings in FY2022 followed by repayment of unsecured debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) improved to 1.14 times as on March 31, 2022. Acuité believes that the group's financial profile has strengthened further in FY2023 and the same is likely to sustain going forward, supported by healthy internal accrual generation and no major increase in the group's debt levels even though the operation of the group is capital intensive in nature with continuous capex incurred for procuring heavy earthmoving equipment (like dumpers, excavators, bulldozers, etc.) and other mining equipment (like compactor, drillers, cranes, etc.) for replacement purpose.

Weaknesses

Working capital intensive nature of operation

The working capital management of the group has improved in FY22, although marked by high Gross Current Assets (GCA) of 117 days in 31st March 2022 as compared to 190 days on 31st March 2021 with increased efficiencies in debtor and inventory management. The high level of GCA days is on account of the higher unbilled revenue as the business model entails extraction and excavation of coal with longer execution periods and billing is done on milestone basis only after approval by respective authorities after the inspection of the quality and the quantity of coal excavated. However, the debtor period significantly improved to 36 days as on 31st March 2022 as compared to 61 days as on 31st March 2021. The predominant debtor of the group is West Bengal Power Development Corporation Limited (WBPDCCL) which is a state government entity and BGRMIL is the MDO of the captive mine owned by the WBPDCCL, exposing the group to low counterparty credit risk. Moreover, the inventory period also stood low at 13 days in 31st March 2022 as compared to 17 days in

31st March 2021. Acuité believes that the working capital operations of the group will remain at same level given the nature of the industry over the medium term.

Susceptibility to risks related to heightened regulations in the mining industry

Operational and regulatory risks in the mining industry have increased significantly in recent years. Regulatory actions have largely been to clamp down on illegal mining, and have included withholding of permits, and ban on export and mining. However, as BGR group is majorly working for State and Central Government entities having long term contracts, the risk is moderated to a large extent.

Rating Sensitivities

- Elongation in working capital cycle
- Enhancement of production capacity
- Change in capital structure

Material Covenants

None

Liquidity Position: Strong

BGR group's liquidity is strong marked by steady net cash accruals of Rs.485.04 Cr as on March 31, 2022 as against debt repayment of Rs. 129.13 Cr. over the same period. Due to capital intensive nature of business and continuous requirement to increase asset base to meet growing scale, BGR group is increasing its asset base regularly, partly funded by term loan and partly through internal accruals. The current ratio stood moderate at 1.27 times as on March 31, 2022. Moreover, the average utilisation of the fund-based limits stood moderate at ~77.58 per cent during the last 9 months ended December 2022. However, the cash and bank balances of the group stood at Rs.6.18 Cr in FY2022. This apart the group has liquid investments in the form of mutual funds of Rs. 7.71 Cr. The group has unused BG limits of 35 per cent of the total sanctioned BG limits, enabling it to take up additional orders. Also the working capital management of the group has improved marked by Gross Current Assets (GCA) of 117 days in 31st March 2022. Acuité believes going forward, the liquidity position is expected to remain strong with declining debt repayments obligations.

Outlook:

Acuité believes that the outlook on BGR group will remain 'Stable' over the medium term on account of the promoters' experience in the coal mining sector, long track record of operations and strong business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management and financial risk profile while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its leverage and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2813.85	1861.88
PAT	Rs. Cr.	208.96	26.76
PAT Margin	(%)	7.43	1.44
Total Debt/Tangible Net Worth	Times	0.45	0.69
PBDIT/Interest	Times	5.36	3.67

Key Financials: Standalone

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	531.48	197.07
PAT	Rs. Cr.	7.88	1.39
PAT Margin	(%)	1.48	0.70
Total Debt/Tangible Net Worth	Times	52.88	58.93
PBDIT/Interest	Times	6.29	1.80

Status of non-cooperation with previous CRA (if applicable)

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Feb 2023	Proposed Bank Facility	Long Term	60.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Short Term	40.00	ACUITE A2 (Upgraded from ACUITE A3)
20 May 2022	Proposed Bank Facility	Long Term	60.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	40.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2 Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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