

May 10, 2010
Mumbai

CRISIL upgrades rating on ESSEL MINING & INDUSTRIES to 'AA-/Stable'

Rs.7 Billion Non-Convertible Debenture Programme	AA-/Stable (Upgraded from 'A+/Stable')
Rs.1000 Million Cash Credit	AA-/Stable (Upgraded from 'A+/Stable')
Rs.2500 Million Foreign Currency Term Loan	AA-/Stable (Upgraded from 'A+/Stable')
Rs.300 Million Letter of Credit and Bank Guarantee	AA-/Stable (Upgraded from 'A+/Stable')
Rs.700 Million Letter of Credit and Bank Guarantee	P1+ (Reaffirmed)
Rs.1500 Million Packing Credit/Export Packing Credit/ Post Shipment Discounting	P1+ (Reaffirmed)

CRISIL has upgraded its rating on Essel Mining & Industries Ltd's (EMIL's) long-term bank facilities and non-convertible debentures to '**AA-/Stable**' from 'A+/Stable', and reaffirmed its rating on the company's short-term facilities at '**P1+**'. The upgrade reflects CRISIL's expectations that EMIL will not make any debt-funded investments in group companies, and will generate strong cash accruals backed by the improved outlook on iron ore prices.

EMIL had an aggressive financial policy, reflected in its debt-funded investments in group companies in the past. The company had an exposure of Rs.55.4 billion in its group companies, as on December 31, 2009. However, its exposure has not increased since October 2008. EMIL proposes to focus on its own growth; hence, investments in group companies are not expected to be substantial, and would not be funded through debt.

The ratings also factor in EMIL's strong financial flexibility due to continued support from the Aditya Birla group, and its established position in the iron ore business. These rating strengths are partially offset by the pressure on its debt protection metrics as a result of debt-funded investments in group companies in the past, and by the cyclical nature in its iron ore business.

EMIL, through its wholly owned subsidiary, holds about 12 per cent stake in Hindalco Industries Ltd (rated 'AA-/Positive/P1+' by CRISIL) and enjoys a prominent position in the Aditya Birla group. The company has an established position in the iron ore business with adequate resources of 170 million tonnes of high iron content (62 per cent) ore with a mix of lump and fine. However, EMIL's past financial policy of debt-funded investments has resulted in high debt levels; furthermore, its debt protection metrics are stretched, with interest coverage ratio of about 5.5 times during 2009-10 (refers to financial year, April 1 to March 31).

Outlook:Stable

CRISIL believes that EMIL will utilise its cash accruals to pursue growth in mining and related businesses, and will invest only any excess cash in group companies. Furthermore, EMIL's financial risk profile will benefit from the favourable outlook on iron ore prices. The outlook may be revised to 'Positive' if there is significant and sustainable improvement in the company's debt protection metrics. Conversely, it may be revised to 'Negative' in case the company contracts more-than-expected debt, or does not receive the expected support from the Aditya Birla group.

About the Company

EMIL is a closely held company of the Aditya Birla group. The company's iron ore and ferro-chemicals businesses accounted for about 93 per cent and 5 per cent, respectively, of its operating income for 2008-09. EMIL has mining operations at Barbil in the Keonjhar district of Orissa. The ferro-chemicals division manufactures low-carbon ferro-alloys, such as ferro-vanadium and ferro-molybdenum, at Vapi in Gujarat. The company also has windmills at Dhule, Maharashtra; this division accounted for 2 per cent of its operating income in 2008-09.

EMIL posted a profit after tax (PAT) of Rs.9.9 billion on net sales of Rs.31.87 billion for the year 2008-09.

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