Oswal Minerals Limited

August 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	14.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long-term/short-term bank facilities	148.00	CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)	Assigned
Total bank facilities	**162.00 (₹ One hundred sixty-two crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Oswal Minerals Limited (OML) factor in the significant improvement in the scale of operations during FY22 (refers to the period from April 1 to March 31), aided by an increase in the traded volumes as well as te commodity prices, which translated into better profitability margins. The ratings also positively factor in the established market position of OML in the ferroalloy segment, especially in South India, with a fairly diversified product base and a reputed clientele. The ratings also derive strength from the experienced and resourceful promoters who, apart from infusing unsecured loans, have also arranged letter of credit (LC) limits for the company by pledging fixed deposits (FD) in their individual capacity.

These ratings strengths are, however, partially offset by the very thin and volatile profit before depreciation interest and taxes (PBDIT) margins of the company in the past, but have shown improvement in FY22. Similarly, the interest coverage ratio (ICR) and return on capital employed (ROCE) have been modest, but improved in FY22. The sustenance of the debt coverage and return indicators over the period remains to be seen. Moreover, the company's inventory holding is relatively high and in the absence of a formal hedging mechanism, OML's realisation and margins are exposed to commodity price and forex fluctuation risks. The ratings are also constrained by the company's prospects being linked to the steel sector, which is inherently cyclical in nature.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in the scale of operations above ₹4,500 crore, with PBILDT margins of above 2.50%.
- Total outside liabilities (TOL)/total net worth (TNW) below 3.50x, ROCE more than 25%, as well as ICR above 4.50x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the scale of operations below ₹2,500 crore, with profit before interest, lease rentals, depreciation and taxation (PBILDT) below 1.50%.
- ICR below 1.75x and TOL/TNW >5.00x.

Detailed description of the key rating drivers

Key rating strengths

Improving scale of operations with improved profitability margins in FY22, aided by an increase in traded volumes as well as commodity prices: OML's operating income stood in the range of ₹1,500-1,700 crore in the FY19-FY21 period but significantly improved to ₹3,298 crore in FY22. This is aided by an increase in the volume of products traded as well as an increase in commodity prices. Inherent to the trading business, the PBILDT margins of the company have been thin. The PBDIT margins were also affected until FY21 due to the under-absorption of fixed costs and lower margins earned in coal trading, which was a new line of business for the company. Nevertheless, with an increase in the scale of operations and discontinuance of coal trading, the PBDIT margins expanded to 2.78% in FY22 as against 1.08% in FY21. The same has also translated into better ICR and ROCE for FY22. Nevertheless, with commodity prices witnessing correction during the current fiscal, the company's ability to sustain its increased scale and return indicators will be closely monitored.

Experienced and resourceful promoters, supported by experienced directors: The promoters have more than four decades of experience in the trading of metals and ferroalloy minerals. The company is currently managed by Sripal Kumar Mohanlal, Mohanlal Bharath Kumar Jain, and Subhashchand Mohanlal. The company has more than three decades of experience in a similar line of business. It has also received funding support from the promoters in the form of equity as well as unsecured loans. The directors and promoters have infused unsecured loans of around ₹214.76 crore as on March 31, 2022.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The promoters, apart from infusing unsecured loans, have also maintained FDs of ₹180 crore with the banks in individual capacities to arrange additional LC limits for the company.

Established market position in the ferroalloy segment with a diversified product base: OML has garnered a sizeable market share in the ferroalloy segment and has built an established clientele. The revenue has recorded a compounded annual growth rate (CAGR) of about 23% over the fiscals 2018 to 2021 and will continue to be aided by better realisations and expansion in the clientele and geographical reach. The four-decade-long experience of the promoters in the ferroalloy industry and their understanding of market dynamics will continue to support the business risk profile.
The company trades in over 100 steel product varieties, including ores, minerals and alloys, and caters to demand from the domestic and export markets. However, the top five products, mainly manganese ore, ferrosilicon manganese, primary nickel, low carbon ferrochrome, and roasted molybdenum ore concentrates, contribute around 80-85% of the total sales of the company.

Key rating weaknesses
Realisations and margins exposed to commodity price and foreign exchange fluctuations: OML is exposed to commodity price fluctuation risk as it maintains high inventory levels of 1-1.5 months to support its customers' immediate material requirements. However, the company generates cost sheets and fixes margins on receiving an order from any client. Since the group cannot transfer the price fluctuation risk to the end customer completely, the said risk has an effect on the margins of the company. OML is also exposed to the volatility in foreign exchange fluctuation risk as the majority of the purchases of traded goods are in the form of imports, which contribute around 85-90% of the total purchases of the company, while export sales contribute about 5-20% of its total sales during the FY19-FY22 period. The margins are highly exposed, as the company does not have any active hedging policy to mitigate the risk in relation to the foreign currency fluctuations.

Presence in a highly competitive and cyclical industry: The demand for OML's products is derived from demand emanating from the steel industry, which is a major purchaser of ferroalloys. The steel industry is highly competitive due to the presence of various organised and unorganised players and the limited product diversity due to the commodity nature of the products. That said, over the years, the industry has become more organised, with the share of unorganised players reducing, but margins continuing to be impacted due to the fragmentation of the industry. Also, the steel industry is sensitive to shifting business cycles, including changes in the general economy, interest rates, and seasonal changes in the demand and supply conditions in the market.

Liquidity: Adequate
The company's liquidity is supported by the strong support received from its promoters in the form of unsecured loans and by providing FD margins to secure the additional working capital lines, thereby keeping lower reliance on the bank's debt. The cash credit (CC) utilisation levels of the company are around 50% and nearly full utilise the non-fund-based limits. Its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next year.

Analytical approach: Standalone

Applicable criteria
Policy on Default Recognition
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Wholesale trading

About the company
OML was setup in 1996 and is engaged into the domestic and international trading of various ferroalloys like silico manganese and ferro manganese and other minerals like manganese and nickel, among others. The company is currently managed by Sripal Kumar Mohanlal, Mohanlal Bharath Kumar Jain, and Subhashchand Mohanlal.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30,2022*
TOI	1,682.57	3,298.64	NA
PBILDT	17.83	91.55	NA
PAT	5.79	49.04	NA
Overall gearing (times)	1.02	0.69	NA
Interest coverage (times)	1.84	3.64	NA

A: Audited; NA: Not available.
*No financials available post March 31, 2022 (A).

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	February 2026	14.00	CARE BBB; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	148.00	CARE BBB; Stable/CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	14.00	CARE BBB; Stable	-	-	-	-
2.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	148.00	CARE BBB; Stable/ CARE A3+	-	-	-	-

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	TOL/TNW <4x, TD/TNW< 1.5x Current ratio>1.25x, ICR >1.00x
B. Non-financial covenants	Unsecured loans from directors should not be withdrawn without prior permission

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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