

HIRA FERRO ALLOYS LIMITED

March 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3+ (A Three Plus) and Withdrawn
Total Bank Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings assigned to the bank facilities of Hira Ferro Alloys Limited (HFAL) at 'CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable /A Three Plus) with immediate effect. The above action has been taken at the request of the company and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The reaffirmation of rating assigned to the bank facilities of HFAL considers the improved financial and operational performance of the company during FY21 and 9M FY22. The strengthened performance has resulted into healthy solvency ratios, improved profitability margins during 9MFY22 and adequate liquidity position. The ratings continue to derive strength from the experience and long track record of the promoters (Hira Group) in the steel and ferro alloys industry as well as availability of captive source of power.

The rating strengths are however constrained by susceptibility to volatility in the raw material prices and exposure to inherent cyclicity of the steel industry.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Incorporated in 1984, HFAL is a part of the Raipur-based Hira group, which has more than two decades of experience in the steel & ferro alloys industry. Godawari Power and Ispat Ltd. the flagship company of the Hira group, holds a stake of 56.45% in the company as on December 31, 2021 (48.45% as on March 31, 2021). HFAL, which is engaged in manufacturing of manganese based ferro alloys draws strength from the extensive experience of promoters.

Captive source of power

HFAL owns a 20 MW coal-based power plant in Chhattisgarh, 1.5 MW windmills in Karnataka and an 8.5 MW biomass-based power plant. HFAL sells power from the biomass plant and windmills to the state utilities; whereas coal-based power plant is mainly used captively, for manufacturing ferro alloys.

Improvement in sales & profitability

HFAL's total income from operation increased to Rs.317.06 crore in FY21 as compared to Rs.303.42 crore in FY20. In 9MFY22, the company has reported a total income of Rs.452.50 crore. PBILDT margin has remained between 5-6% between FY18-FY20 and improved to 10.34% in FY21.

Improvement in debt coverage indicators

Interest coverage ratio improved to 5.97x during FY21 compared to 3.03x during FY20, which is expected to improve further on account of strong financial performance during 9MFY22. Overall gearing improved to 0.17x as on March 31, 2021 with improvement in net worth on account of profit addition and debt remaining at the same level.

Key Rating Weakness

Exposure to volatility in raw material prices

The prices of manganese ore, the major raw material for HFAL, are highly volatile. The company does not have any long-term contracts with its suppliers and procurements are done at prevailing market prices thereby exposing HFAL to volatility in raw material prices. Although HFAL has 100% coal linkage from SECL (South Eastern Coalfields Limited) for its coal requirements, the company is able to procure only around 55-70% of the requirements from this linkage; the balance is usually imported or purchased through e-auctions. Hence, it is also exposed to foreign currency risks.

Cyclicity of the steel industry

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates,

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

interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand.

Liquidity: Adequate

Operating cycle increased to 66 days in FY21 from 35 days in FY20 with increase in inventory holding days. Utilisation of fund based limits stood moderate at 50%

Analytical approach: Standalone; factoring linkages

Applicable criteria:

[Policy on Withdrawal of ratings](#)

[CARE's policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector](#)

[Rating Methodology - Manufacturing companies](#)

[Notching by factoring linkages in Ratings](#)

About the company

Incorporated in 1984, Hira Ferro Alloys Limited (HFAL) is a 48.45% associate (as on March 31, 2021) of Godawari Power and Ispat Ltd. - the flagship company of the Hira group. Hira Infra Tek Limited (HITL) holds 22.74% equity and the balance stake in HFAL is held directly by the promoters of the Hira group. HFAL is engaged in manufacturing of manganese based ferro alloys (mainly silico-manganese). It also sells surplus power on merchant basis from its 30MW power plants to optimise the profitability of the company. As on December 31, 2021, the company has a ferro-alloy plant (60,500 mtpa), a captive coal-based power plant of 20 MW in Chhattisgarh, 1.5 MW windmills in Karnataka and 8.5 MW biomass power plant in Chhattisgarh, taking its total power generation capacity to 30 MW.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Income from Operations	303.42	317.06	452.50
PBILDT	15.80	32.77	130.80
PAT	3.83	21.14	91.80
Overall Gearing (times)	0.29	0.17^	-
Interest Coverage (times)	3.03	5.97	34.42

A: Audited; UA: UnAudited; ^excluding acceptances

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Detailed explanation of covenants of the rated instrument / facilities: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Mar-20)	1)CARE BBB-; Stable (07-Feb-19)
2	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A3+ (07-Apr-21)	-	1)CARE A3 (30-Mar-20)	1)CARE A3 (07-Feb-19)
3	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB+; Stable (07-Apr-21)	-	1)CARE BBB-; Stable (30-Mar-20)	1)CARE BBB-; Stable (07-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Hitesh Avachat
Contact no.: +91-90048 60007
Email ID: hitesh.avachat@careedge.in

Relationship Contact

Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**