Nilachal Carbo Metalicks Private Limited

August 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1.]	Rating Action
Long Term Bank Facilities	6.78 (Reduced from 9.64)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Short Term Bank Facilities	8.75	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**15.53 (Rs. Fifteen Crore and Fifty-Three Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the Bank Facilities of Nilachal Carbo Metalicks Private Limited (NCMPL) is on account of sustained financial performance with satisfactory liquidity and debt coverage indicators over the last two years. The ratings further derive strength from strategic location of the plant. However, the ratings continue to remain constrained by its small scale of operations, volatility in the prices of raw material and finished goods, customer concentration risk and cyclical nature of steel industry.

Rating Sensitivities

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

- Improvement in scale of operations beyond Rs.180 crore and improvement in PBILDT margin at more than 12%
- Overall gearing below 0.5x and Total debt to gross cash accruals reducing below 1.5x
- Sustenance of operating cycle at the current level

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

- Decline in scale of operations and moderation in PBILDT margin below 5%
- Deterioration in overall gearing and TD/GCA above 1.5x and 5x respectively

Key Rating Weaknesses

Small scale of operation

With an installed capacity of 75,000 tpa, NCMPL is relatively a small player. With its small size, the company does not get benefit from economies of scale and during financial stress it may impact the business as compared to large players in same industry. The capacity utilization (CU) level improved and stood at 71% in FY21 (57% in FY20) on the back of modification done in the plant such as replacement of refractory lining in the ovens leading to lower cycle time. The CU also increased due to usage of better quality of coal with high yield ratio (with low volatile matter).

Volatility in the prices of raw material and finished goods

Coking coal is the major raw material cost for NCMPL (constituting ~71% of cost of sales in FY21). Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw material prices. Given that any sharp decline in raw-material prices needs to be immediately passed on to consumers whereas any sharp increase in prices are passed to the consumers with a certain time lag, the profitability of the company is susceptible to fluctuation in raw-material prices.

Customer concentration risk

Majority of the revenue for the company is derived from few players who are ferro alloy producers. In FY21, NCMPL derived around 78% (85% in FY20) respectively of its revenue from top 4 customers which indicates customer concentration risk. However, long standing relationship with these clients for over the years mitigates the risk to some extent.

Cyclical nature of steel industry

NCMPL is in the business of manufacturing of LAM coke which is required in the manufacturing of steel and ferro alloy industry so there is a high degree of dependence on the fortunes of the steel industry, which is cyclical in nature.

Key Rating Strengths

Experience of the promoters
NCMPL commenced its operation in 2003 under Dr. B D Chatterjee along with Mr. Bibhudatta Panda. Subsequently the entire stake was bought by Mr. Panda in 2012. Mr. Panda started his career as a trader of imported minerals and coal before venturing into LAM coke manufacturing and having 27 years of overall experience. The day to day operation of the company is managed by Mr. Panda with the help of other experienced professionals.

Strategic location of the plant
NCMPL procures coking coal from local suppliers who in turn imports coking coal from Australia and its manufacturing unit is located at Baramana (Dist. Jajpur) Odisha which is ~100 km away from Paradip port which facilitates NCMPL to readily transport coal to its plant location, thereby enabling it to save on its inward freight cost. Moreover, the manufacturing facility is also strategically located at a distance of 60-130 kms from various Ferro Alloy plants which require metallurgical coke as raw material, thereby enabling it to save on its freight outward cost.

Satisfactory capital structure and debt coverage indicators
Overall gearing ratio and debt coverage parameters remained at satisfactory level post one-time settlement of debt and write-back of liabilities resulting in improved networth as on March 31, 2020. The overall gearing ratio remained satisfactory at 1.15x as on March 31, 2021 and 1.22x as on March 31, 2020. Interest coverage improved from 2.39x in FY20 to 3.34x in FY21 (Prov.) on account of low interest expenses. Total Debt/GCA stood stable at 2.99x as on March 31, 2021 as against 2.73x as on March 31, 2020.

Sustained financial performance in FY21
The total operating income of the company remained stable at Rs.115.78 crore in FY21 (Prov.) (Rs.113.84 crore in FY20) on account of stable overall realisation and sales volume. Similarly, PBILDT margin also stood stable at 9.59% in FY21 (Prov.) (9.88% in FY20). The company reported GCA of Rs.8.11 crore vis-à-vis debt repayment obligation of Rs.2.69 crore in FY21. The financial performance remained consistent over the last two years.

Industry Outlook
The finished product of NCMPL is Low Ash Metallurgical (LAM) coke which is majorly used as a fuel in chemical industry as well as in iron & steel industry. India coal production reported 46.5% M-o-M fall in April 2021. Lower demand due to uncertainty caused by the second wave of coronavirus impacted offtake. Besides, higher inventory levels and casualties due to second wave led to slower ramp up of mining operations at coal mines.
However, CARE do expect production and offtake to improve in the coming months as inventories at power plants remain low and utilities would look to restock their supplies ahead of the monsoon season. Besides, demand from steel, cement and DRI sectors are also expected to improve in the coming months as labour and oxygen supply issues gets resolved with fall in the number of covid cases which had peaked in March 2021.

Liquidity: Adequate
Liquidity is marked by gross cash accruals of Rs.8.11 crore vis-à-vis debt repayment obligations of Rs.2.69 crore and free cash balance of Rs.0.20 crore as on March 31, 2021. The fund based bank limits and non-fund based limits are utilized on an average to the extent of ~77% and ~98% in last 12 months ended March 31, 2021 and April 30, 2021 respectively. The current ratio stood below unity at 0.89x as on March 31, 2021.
The working capital cycle of the company was comfortable and stood negative mainly on the back of usage of LC (procurement of coking coal) of usance period of 30-90 days. NCMPL sells its finished product to its customers on a credit period of 10-15 days. The average inventory period was 21 days in FY21 (16 days in FY20).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Company
Nilachal Carbo Metalicks Private Limited (NCMPL) was incorporated in 2003 by Dr. B D Chatterjee along with Mr. Bibhudatta Panda. NCMPL produces and sells sized coke – nut coke (LAMC) and coke fines with the present installed capacity of 75,000 MTPA at Baramana (Dist. Jajpur) Odisha. The day to day operations of the company are looked after by Mr. Panda with the support of other experienced professionals.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	113.84	115.78
PBILDT	11.25	11.10
PAT	5.36	5.57
Overall gearing (times)	1.22	1.15
Interest coverage (times)	2.39	3.34

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	8.75	CARE A4
Fund-based - LT-Cash Credit	-	-	-	1.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	August, 2024	5.78	CARE BB; Stable

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.	Non-fund-based - ST-Letter of credit	ST	8.75	CARE A4	-	1)CARE A4 (30-Sep-20)	1)CARE A4 (10-Feb-20)	1)CARE D (12-Sep-18) 2)CARE A4 (01-Aug-18)
2.	Fund-based - LT-Cash Credit	LT	1.00	CARE BB; Stable	-	1)CARE B+; Stable (30-Sep-20)	1)CARE B+; Stable (10-Feb-20)	1)CARE D (12-Sep-18) 2)CARE B; Stable (01-Aug-18)
3.	Fund-based - LT-Term Loan	LT	5.78	CARE BB; Stable	-	1)CARE B+; Stable (30-Sep-20)	1)CARE B+; Stable (10-Feb-20)	-

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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

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