Maithan Alloys Limited

December 05, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	90.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term (LT/ST) bank facilities	15.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	435.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**540.00 (₹ Five hundred forty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Maithan Alloys Limited (MAL) continue to derive strength from its strong business and financial risk profile marked by large scale of operations and established presence in the ferro-alloys industry, sizeable presence in the export market providing diversification to revenue, healthy capacity utilisation, strong liquidity and debt coverage indicators with low reliance on debt.

The ratings also take note of the substantial improvement in operating profitability in FY22 (refers to the period April 1 to March 31) largely driven by the significant increase in realisation of finished goods backed by a strong demand scenario for the end-use products. While the profitability continued to remain strong in Q1FY23, the margins have witnessed moderation in Q2FY23 on account of the decline in average sales realisation in line with the industry following correction in steel prices. Going forward, the demand is expected to remain stable, though the margin is expected to normalize; to pre-COVID levels.

Furthermore, the capital structure is expected to remain healthy going forward with negligible utilisation of the fund-based working capital limits given the healthy liquidity available with the company and no debt proposed to be taken for the capex plans. The company has plans for greenfield expansion of its ferro alloy capacity. The entire capex is expected to be funded out of the internal generations and the available liquidity.

The ratings continue to remain constrained by the dependence of the ferro alloy industry on the cyclical steel sector, susceptibility of profitability margins to volatility in raw material and finished goods prices, working capital intensive nature of operations and foreign exchange fluctuation risks. Furthermore, the company remains exposed to the risks associated with the planned capex.

Rating Sensitivities

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

- Substantial increase in the consolidated operating income and improvement in return on capital employed (ROCE) above 25% on sustained basis.
- Improvement in the operating cycle to below 70 days on sustained basis.

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

- Decline in the consolidated operating income below ₹1,500 crore and PBILDT margin below 12%.
- Deterioration in overall gearing beyond 0.5x and total debt/PBILDT above 2x.
- Reduction in cash and cash equivalents below ₹500 crore.

Detailed description of the key rating drivers

Key Rating Strengths

Established presence in the ferro alloys industry: MAL's promoter, Mr Subhas Chandra Agarwalla has an experience of around three decades in the ferro alloy industry. He is supported by his sons, Mr Subodh Agarwalla (Whole-time Director and CEO) and Mr Sudhanshu Agarwalla (CFO) who have sound technical and managerial qualifications and experience. The experience and technical expertise of the promoters have contributed to MAL establishing its strong foothold in an otherwise highly volatile ferro alloy industry. The company has large manufacturing capacity of 2,35,600 metric tonne per annum (MTPA) of ferro alloys which is further augmented by acquisition of Impex Metals and Ferro Alloys Limited (Impex) in FY22 having

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

production capacity of 46,900 MTPA.

Diversified operations with strategic location of the manufacturing facilities: MAL's manufacturing facilities are present in Kalyaneshwari (West Bengal), Visakhapatnam (Andhra Pradesh) and Ri-Bhoi (Meghalaya). The manganese ore requirements are met through imports from South Africa, Gabon and Australia. Coke is imported from South Africa and Columbia for Visakhapatnam unit and purchased from Jharkhand and Assam for Kalyaneshwari unit and from Guwahati for the Meghalaya unit. While the company mostly caters to the domestic market through its plant in West Bengal & Meghalaya, it caters to international market through its plant in Visakhapatnam (being near to the port). Proximity to end-users due to presence of large number of steel players in East India for the domestic sales and presence near the port for export sales and imported raw materials results in optimal freight and inventory holding costs, leading to competitive pricing and better margins.

Established and reputed clientele along with strong presence in the export market: Around 65% of MAL's domestic revenue in FY22 (90% in FY21) was from Steel Authority of India Ltd (SAIL; rated CARE AA; Stable/CARE A1+). Although concentrated in the domestic market, counter party risk is mitigated to a large extent due to SAIL being a large steel producer with high credit standing. The company also has sizeable presence in export markets with 74% of its consolidated total operating income (TOI) in FY22 (58% in FY21) being derived from exports. In FY22, MAL's share in the bulk ferro alloys exports from India (excluding export of ferro chrome and other ferro alloys) was around 8% (12% in FY21). In export market, MAL caters to reputed global players, some of which are also state-controlled entities. MAL gets repeat orders from its clients due to its established relationship with them.

High capacity utilization (CU) levels: The CU witnessed an increase in FY22 to 96% (including Impex) compared with 89% in FY21 and reached its pre-COVID level. In FY21, CU had witnessed decline on account of the first wave of COVID-19 pandemic which had led to nation-wide lockdown impacting the production. The second wave in Q1FY22 did not have any major impact on the CU as export demands were rising.
In H1FY23, its CU stood at about 86%. The CU has remained high over the years reflecting the company's strong track record to operate optimally.

Robust financial risk profile with significant improvement in FY22 and H1FY23: The TOI of the company witnessed a significant y-o-y growth of 85.3% in FY22 compared with FY21 to ₹3,001.65 crore. The increase in revenue was mainly on account of significant increase in realisation per ton along with increase in total sales quantity of the ferro alloy products. The significant increase in realisation with no major increase in costs led to almost doubling of its PBILDT margin from 18.17% in FY21 to 36.13% in FY22. The average sales realisation of manganese alloys (which constitutes around 93% of manufacturing sales) witnessed significant increase in FY22. The improved operating margins coupled with low capital costs led to improvement in PAT margin as well in FY22 compared with FY21. ROCE also improved significantly from 20.60% in FY21 to 54.92% in FY22.
In H1FY23, TOI witnessed a growth of 35% y-o-y with overall growth in both volume and per ton realisation. PBILDT margin remained healthy at 27.04% with higher margin earned in Q1FY23 which offset the impact of the decline in margin in Q2FY23.
In Q2FY23, TOI witnessed de-growth of 29% q-o-q on account of reduction in sales realisation which also impacted the PBILDT margin apart from increase in power cost. Going forward, with decline in realisation of finished goods, the revenue and profitability are expected to moderate to near the pre-pandemic levels.

Robust capital structure and debt coverage indicators
The company has a robust capital structure with an overall gearing of 0.05x as on March 31, 2022 vis-à-vis 0.12x as on March 31, 2021. The improvement in the overall gearing was on account of lower working capital utilisation by the company. The debt coverage indicators also remained robust with Total debt/GCA of 0.14x as on March 31, 2022 (0.74x as on March 31, 2021). With nil term debt and low utilisation of fund-based limits, the interest cost continued to remain low and accordingly interest coverage continued to be very comfortable. The company has an estimated capex plan of around ₹250 crore during the period FY24-FY25, which is planned to be expended out of the available liquidity and internal generations and no debt is planned to be availed.
As stated, and demonstrated by the company's management, its overall gearing is not expected to exceed 0.50 times, at any point of time in the future. Going forward, maintenance of low gearing risk and high operational efficiencies shall remain crucial from credit perspective as the company operates in highly volatile ferro alloys industry which is susceptible to the vagaries of steel cycles.

Key rating weaknesses

Dependence of the ferro alloy industry on the cyclical steel sector: The bulk ferro alloy market segment is categorised into alloy steel, carbon steel, stainless steel and others. Around 17%-23% chromium is required for every ton of stainless steel manufactured and around 0.7% manganese is required for every ton of steel. The above is met through alloys of chromium and manganese. Thus, there exists a strong co-relation between the growth of the ferro alloy industry and the steel industry.

Susceptibility of profitability to volatile raw material and finished goods price: Manganese ore, coal and coke are the major raw materials required which constituted about 45% of total cost of sales in FY22 (46% in FY21). It purchases power from state power utilities. Going forward, the power cost shall witness an increase on account of the hike in tariff from FY23 onwards. MAL has recognized ₹101.92 crore of exceptional expenses w.r.to electricity charges for earlier years in H1FY23 however the same is being contested by the company.

The price of manganese ore and coke is highly volatile and the realisation of the ferro alloys is also governed by the performance of the end-user steel industry. Thus, MAL's profitability is highly susceptible to fluctuation in prices of the raw materials and the finished goods. However, due to its strong management and cost-effective operations, the company has been able to manage these fluctuations somewhat better as reflected in relative steadiness in its operating margins vis-à-vis the peers.

Working capital intensive nature of operation: MAL's operations are working capital intensive in nature as it has to offer credit period of around two months to its customers due to intense competition in the industry. Other than inventory in transit, MAL usually maintains around one month of inventory at its Visakhapatnam unit and two months of inventory at its Kalyaneshwari unit for smooth running of operations. The working capital cycle of the company stood at 143 days in FY22, increased from 136 days in FY21. Though total receivables have increased as on March 31, 2022 compared with March 31, 2021, receivables period witnessed a decline from 82 days in FY21 to 69 days in FY22 on account of significant increase in revenue. With increase in inventory period from 89 days in FY21 to 110 days in FY22, the operating cycle increased slightly. Increase in inventory was mainly on account of significant increase in both quantity as well as value of raw materials during the year.

Nevertheless, with healthy cash generation from the business and availability of liquidity, the company is not required to avail debt to fund the increase in working capital requirement.

Foreign exchange fluctuation risk: MAL imports manganese ore from South Africa and Gabon (around 80%) and Australia (around 20%). The company imports around 90% of its raw-material requirement (mainly manganese ore). Also, the company has a strong presence in export market with exports contributing to around 74% of its TOI in FY22. Hence, the company enjoys natural hedge to an extent and for the remaining portion, if any, it hedges its net foreign currency exposure through forward contracts thereby mitigating foreign currency fluctuation risk to a large extent. The company earned foreign exchange gain of ₹33.30 crore in FY22 vis-à-vis foreign exchange gain of ₹9.30 crore in FY21.

Project implementation risk: The company has planned a greenfield project of around ₹250 crore towards the ferro manganese/ silico manganese unit of 1 lakh MT p.a. in Bankura, West Bengal for which it has set up a subsidiary, Maithan Ferrous Private Limited. The company has also purchased land for the same. The company has received environmental clearance and expects the project work to start in FY24. Major expenditure on the project is expected to be incurred in FY24 and FY25 and funded out of its internal accruals. Timely completion and stabilization of the capex would be critical for its RoCE.

Stable industry prospects

The fortune of the ferro alloys industry is directly correlated to the steel industry. The domestic steel demand growth is expected to remain strong at 9-10% in FY23, due to the government's infrastructure push and increased investments in real estate and construction sectors amid an overall economic rebound. In addition to this, lower raw material prices are expected to support steel production in India, though steel prices are expected to continue to remain moderate. The removal of export duty on various steel products w.e.f November 19, 2022 also augurs well for the steel industry.

Liquidity: Strong

Liquidity is marked by strong accruals in FY22 and H1FY23 against nil term debt repayment obligations and free cash and liquid investments to the tune of ₹1,380 crore as on November 08, 2022. The working capital limit also remained unutilised during the last 12 months period ended August 2022. The company's unutilised bank lines are adequate to meet its incremental working capital needs over the next one year. With an overall gearing of 0.05 times as on March 31, 2022, the issuer has sufficient gearing headroom to meet its capex requirement.

Analytical approach: Consolidated

Care Ratings Limited (Care Ratings) had earlier taken a standalone view while analysing MAL as all the subsidiaries were in the initial stage of operation and more than 99% of turnover and profits at a consolidated level, were attributable to the standalone operations of MAL. However, the analytical view is now changed to consolidated taking into account the acquisition of Impex as a subsidiary in FY22 and strong operational linkages associated with it.
List of entities being consolidated with MAL is as under:

Name of subsidiary	% of holding as on March 31, 2022
Anjaney Minerals Ltd	100%
Salanpur Sinters Pvt Ltd	100%
AXL Explorations Pvt Ltd	75%
Maithan Ferrous Pvt Ltd	80%
Impex Metal and Ferro Alloys Ltd	100%

Applicable Criteria

Rating Outlook and Credit Watch
Criteria for short term instruments
Policy on default recognition
Financial Ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Steel Industry
Consolidation

About the Company

MAL, incorporated in 1985, is engaged in the manufacturing of ferro alloys, having an installed capacity of 136 MVA (i.e. 235,600 MT of ferro Alloys) at three locations i.e. 49 MVA (94,600 MTPA) at Kalyaneshwari, West Bengal, 15 MVA (21,000 MTPA) at Ri-Bhoi, Meghalaya and 72 MVA (1,20,000 MTPA) at Visakhapatnam, Andhra Pradesh. The Meghalaya unit has a captive power plant of 15 MW, which is not operational since January 2019. MAL is also engaged in the trading of metal & mineral products and wind power operation. The day-to-day operations of the company are looked after by Mr S. C. Agarwalla with support from his two sons, Mr Subodh Agarwalla & Mr Sudhanshu Agarwalla.
In FY22, MAL acquired Impex through a liquidation process. Post-acquisition, Impex successfully commenced its production in December 2021. Impex has a capacity to produce 46,900 MT of ferro silicon.

Brief Consolidated Financials (₹crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	1619.78	3001.65	1664.99
PBILDT	294.29	1084.38	450.22
PAT	230.03	818.04	328.14
Overall gearing (times)	0.12	0.05	NA
Interest coverage (times)	93.13	315.23	865.81

A: Audited; UA: Unaudited; NA: Not Available; Financials are reclassified as per CARE Ratings standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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 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-Cash Credit		-	-	-	90.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	15.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Bank guarantee		-	-	-	35.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	400.00	CARE A1+

Annexure-2: Rating History of 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	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Oct-20)	1)CARE A1+ (16-Aug-19)
2	Non-fund-based - ST-Bank guarantee	ST	35.00	CARE A1+	-	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Oct-20)	1)CARE A1+ (16-Aug-19)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Sep-21)	1)CARE AA; Stable (08-Oct-20)	1)CARE AA; Stable (16-Aug-19)
4	Fund-based - LT-External commercial borrowings	LT	-	-	-	-	-	1)Withdrawn (16-Aug-19)
5	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	15.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Sep-21)	1)CARE AA; Stable / CARE A1+ (08-Oct-20)	-

*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 - LT/ ST-Bank guarantee	Simple
3	Non-fund-based - ST-Bank guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank Lender Details
To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *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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About us:
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