Oswal Minerals Limited

September 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.46 (Reduced from 14.00)	CARE BBB-; Stable	Revised from CARE BBB; Stable
Long-term/Short-term bank facilities	100.00 (Reduced from 148.00)	CARE BBB-; Stable/CARE A3	Revised from CARE BBB; Stable/CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Oswal Minerals Limited (OML) factors in the moderation in the scale of operations during FY23 (FY refers to the period from April 1 to March 31) due to a decline in the volumes traded, mainly manganese ore, along with a correction in the sales realisation in both, the international and domestic markets, which has resulted in a fall in profitability margins during FY23 along with losses reported by the company in Q1FY24. The company's ability to recover its scale of operations by improvement in the volume traded along with an improvement in the profitability margins will be key to its credit metrics.

Moreover, the company's inventory holding is relatively high, and in the absence of a formal hedging mechanism, OML's realisations 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. Furthermore, the company's interest coverage ratio (ICR) and return on capital employed (ROCE) have been modest over the years.

Nevertheless, the ratings continue to 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 (FDs) in their individual capacities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the scale of operations above ₹3,500 crore, with a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of above 2%.
- Total outside liabilities (TOL)/total net worth (TNW) below 4.00x, ROCE more than 12.50%, as well as ICR above 3.50x on a sustained basis.

Negative factors

- Decline in the scale of operations below ₹1,500 crore, with a PBILDT margin of below 1.00%.
- ICR below 1.50x and TOL/TNW of above 5.50x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that OML's business risk profile will remain stable, aided by the stabilisation in the prices of manganese ore and the long track record of the promoters in the ferroalloy trading business.

Detailed description of the key rating drivers

Key strengths

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 the 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 ₹260 crore, of

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

which ₹125 crore was subordinated to the bank. Apart from infusing unsecured loans, the promoters have also arranged LC limits for the company by pledging FDs in their individual capacities. CARE Ratings expects the long-standing experience of the promoters in the business to help the company in mitigating its short-term disruptions.

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 four-decade-long experience of the promoters in the ferroalloy industry and their understanding of market dynamics will continue to support the company's business risk profile. OML 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 to around 80-85% of the total sales of the company.

Key weaknesses

Moderation in financial risk profile

Due to the moderation in commodity prices and the relatively high inventory-holding period, OML witnessed a fall in the PBDIT margin from 2.77% in FY22 to 1.60% in FY23. A similar reduction was witnessed in the ROCE, which declined from 26.87% in FY22 to 12.06% in FY23. There is a further sharp decline in the profitability, leading to a PBDIT level loss in Q1FY24. The TOL/TNW of the company also witnessed moderation and stood at 4.70x as on March 31, 2023 (PY: 3.73x) due to high creditors. With stabilisation in prices, while CARE Ratings expects the company to be able to recover from the losses, the profitability margins may not be able to reach the earlier levels in the near term.

Realisations and margins exposed to commodity price and foreign exchange fluctuations

OML is exposed to commodity price fluctuation risk, however, the company generates cost sheets and fixes the margins as and when it receives orders from clients. Furthermore, the market scenario also affects the margins. Since the group cannot transfer the price fluctuation risk to customers completely, the said risk has an impact on the margins of the company.

Moreover, OML is also exposed to the volatility in foreign exchange fluctuation risk, as majority of the purchases of the traded goods are in the form of imports, which contributes around 85-90% of the total purchases of the company. The sales are spread across various regions of the country and OML sells to certain countries of the world, and as such, export sales constituted about 10-13% of the total sales during FY20-FY23. Furthermore, the margins are highly exposed to foreign currency, as the company does not have any active hedging policy to mitigate the risk with regard to foreign currency fluctuations. During FY23, the company incurred around ₹68.37 crore of net losses in foreign currency fluctuations as compared to ₹9.38 crore in FY22.

Stable operating cycle but inventory levels are relatively high

OML's operating cycle generally stands in the range of 45-60 days. The company has seen an increase in the collection period and inventory period in FY23 of the extended credit period for some of its customers mainly on account of the averaging effect. It usually maintains a high inventory level of around two months to support its customers' immediate material requirements. The company usually supplies manganese ore only if the advance payment for the same is made, however, the general collection period for the sales made to foundries and steel manufacturing units are around 90 days. Furthermore, the sales of the company are mainly LC-backed. However, certain related suppliers provide a credit period of around 30-60 days to the company.

Presence in a highly competitive and cyclical industry

The demand for OML's products is derived from the 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 a lower reliance on the bank's debt. The cash credit (CC) utilisation levels of the company are around 70% with nearly full utilisation of the non-fund-based limits. Its unutilised bank lines are adequate to meet its incremental working capital needs over the next year.

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

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

OML was setup in 1996 and is engaged in the domestic and international trading of various ferroalloys like silicomanganese and ferromanganese and other minerals like manganese and nickel, among others. The company has 10 branches spread across the country. It is currently managed by Sripal Kumar Mohanlal, Mohanlal Bharath Kumar Jain, and Subhashchand Mohanlal.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	3,298.64	2,996.92	559.52
PBILDT	91.43	48.05	-29.74
PAT	49.04	26.54	-34.07
Overall gearing (times)	0.97	0.96	NA
Interest coverage (times)	3.65	3.89	NM

A: Audited; UA: Unaudited; NA: Not available; NM: Not Meaningful. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	10.46	CARE BBB-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	100.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	10.46	CARE BBB-; Stable	-	1)CARE BBB; Stable (02-Aug-22)	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	100.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (02-Aug-22)	-	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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