Maithan Alloys Limited

January 05, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	90.00	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	15.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	435.00	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and 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 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 also take note of moderation in the profitability margin since Q2FY23 on account of the decline in average sales realisation in line with the industry following correction in steel prices along-with over capacity situation. The same is expected to remain subdued in the near term.

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 implementation of planned capex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Decline in consolidated operating income below ₹1,500 crore and PBILDT margin below 10% on a sustained basis
- Deterioration in total debt/PBILDT above 2x
- Reduction in cash and cash equivalents below ₹500 crore.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated analytical approach on account of operational and financial linkages of MAL with its subsidiaries. The list of companies being consolidated is given in **Annexure – 6**.

Outlook: Stable

Stable outlook reflects that despite moderation in the profitability margin, the entity is likely to sustain its financial risk profile amidst strong competitive advantages and access to exports. Absence of any large debt-funded capex or acquisition plans in the medium term, low debt profile and large cash balances is expected to support its robust capital structure and liquidity profile.

Detailed description of the key rating drivers:

Key strengths

Established presence in the ferro alloys industry: MAL's promoter, Subhas Chandra Agarwalla has an experience of around three decades in the ferro alloy industry. He is supported by his sons, Subodh Agarwalla (Whole-time Director and CEO) and Mr

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

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 was further augmented by acquisition of Impex Metals and Ferro Alloys Limited (Impex) in FY22 having production capacity of 46,900 MTPA. However, it has been shut down since May 2023 owing to infeasible operations on the back of oversupply condition in the market.

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: The company has sizeable presence in export markets with 72% of its consolidated total operating income (TOI) in FY23 (74% in FY22) being derived from exports. In FY23, MAL's share in the bulk ferro alloys exports from India (excluding export of ferro chrome and other ferro alloys) was around 8% (8% in FY22). 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. In domestic markets also, MAL caters to reputed clients like Steel Authority of India Ltd (SAIL; rated CARE AA; Stable/CARE A1+) and Tata Steel Ltd (rated CARE AA+; Stable) which are large steel producers with high credit standings.

Healthy capacity utilization (CU) albeit shut down of Impex plant: MAL acquired Impex in FY22 and started production since December 2021. The CU witnessed a decline in FY23 to 83% compared with 96% in FY22. In FY23, the overall CU had witnessed decline on account of lower utilization in Impex plant. In H1FY24, its CU improved to 90%, due to shut down of Impex plant since May 2023. The Impex plant has been shut down strategically, as running smaller capacity in the current market condition is not viable as per company management.

Robust financial risk profile; though operating margin moderated since Q2FY23: The TOI of the company remained high in FY23 at ₹2,899 crore (FY22 - ₹3,001.65 crore). The higher revenue was mainly on account of abnormally high realisation per tonne along with high total sales quantity of the ferro alloy products. The profitability margin witnessed moderation since Q2FY23 on account of decline in average sales realisation and raw material cost in line with the industry, following correction in steel prices, whereas power cost continues to increase. In H1FY24, the average sales realisation corrected further, whereas the power cost remained at previous level, resulting in further reduction in operating margin to 8.6% (20.7% in FY23 and 36.1% in FY22). The operating margin is expected to remain under pressure for ensuing quarters as the situation is not likely to improve in the immediate future.

Robust capital structure and debt coverage indicators: The company has a robust capital structure with an overall gearing of 0.02x as on March 31, 2023 vis-à-vis 0.05x as on March 31, 2022. The debt coverage indicators also remained robust with Total debt/GCA of 0.09x as on March 31, 2023 (0.14x as on March 31, 2022). 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 ₹175 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 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.

Liquidity: Strong

Liquidity is marked by strong accruals in FY22 and FY23 against nil term debt repayment obligations and free cash and liquid investments to the tune of ₹1,974 crore as on November 22, 2023. The working capital limit also remained unutilised during the last 12 months period ended October 2023. 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.

Key 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 42% of total cost of sales in FY23 (42% in FY22). It purchases power from state power utilities and the power costs have seen an increase in FY23. MAL 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. Due to its strong management and cost-effective operations, the company has been able to manage these fluctuations somewhat better in the past vis-à-vis the peers. However, the operating margin got impacted since H2FY23 and is expected to remain weak in near future in view of lower realisation of finished products, whereas raw material cost decline is not commensurate with the sale price decline.

Working capital intensive nature of operation: MAL's operations are working capital intensive in nature as it offers credit period of around two months to its customers as it sells the product directly to its end customers instead of routing through intermediaries, resulting in better customer relation, stable order flow and higher realisation. 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 128 days in FY23, decreased from 143 days in FY22. Though total receivables have decreased as on March 31, 2023 compared with March 31, 2022, receivables period has remained the same from 69 days in FY22 to 70 days in FY23. With decrease in inventory period from 110 days in FY22 to 88 days in FY23, the operating cycle decreased slightly. 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 73% of its TOI in FY23. 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.

Project implementation risk: The company had 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. However, considering the prevailing subdued industry scenario, the company is constructing only two of the initially planned four furnaces (resulting in a capex of ₹125 crore). The project is in advanced stage of implementation and is expected to be operational from FY25. Major expenditure on the project 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.

Challenging industry prospects in the near term: 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 FY24, 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. However, there has been significant over supply situation in the ferro alloy industry putting pressure on the profitability margins of the ferro alloy players in the near term.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	1. The company has a business continuity and a disaster management plan in place. The Main objective is to maintain business continuity under disruptive incidents with an aim to minimize impact on- - Human Life and other living beings - Environment and related eco systems - Economic losses 2. The entire Power consumption, which is around 25-30% of total input cost, requirements in the process of manufacturing of Ferro Alloys are sourced sustainably through long-term "Power Purchase Agreements" which maintains high standards of social and environment standards.
Social	1. The company has installed adequate numbers of Air Pollution Control Devices such as Gas Cleaning, Dust Extraction Systems Mist Cannons, Rain Guns and Regular maintenance work is done on the equipment for optimum functionality. Ambient air quality is monitored in accordance with a schedule as per prescribed norm. 2. The company has systems relating to occupational health and safety management in place and covers all the three manufacturing units of the company. 3. The company has spent ₹10.85 crore towards Corporate Social Responsibility (CSR) during FY23 (₹5.99 crore during FY22), which is in line with the amount required to be spent.
Governance	1. The Board of Directors of the company comprises seven Directors viz. two Executive Directors, five Non-Executive Independent Directors including one Woman Director and two Non– Executive Directors. 2. The Company has a robust grievance redressal system and it solved all the complaints received during the FY23 and no complaint was pending for redressal as on March 31, 2023.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Ferro & Silica Manganese

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.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	3,001.65	2,899.25	874.31
PBILDT	1,084.38	601.16	73.10
PAT	818.04	498.99	121.65
Overall gearing (times)	0.05	0.02	0.01
Interest coverage (times)	315.23	268.38	243.66

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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 for the last three years

Sr. No.	Name of the 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	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Oct-20)
2	Non-fund-based - ST-Bank Guarantee	ST	35.00	CARE A1+	-	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Oct-20)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Dec-22)	1)CARE AA; Stable (06-Sep-21)	1)CARE AA; Stable (08-Oct-20)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	15.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Dec-22)	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 facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here]

Annexure-6: List of companies getting consolidated in MAL (As on March 31, 2023)

Name of subsidiary	% holding
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%
Ramagiri Renewable Energy Ltd	100%

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:
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