Nilachal Carbo Metalicks Limited

September 09, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	23.43	CARE BBB-; Stable	Revised from CARE BB+; Stable
Short-term bank facilities	8.75	CARE A3	Revised from CARE A4+

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Nilachal Carbo Metalicks Limited (NCML; erstwhile Nilachal Carbo Metalicks Private Limited) take into account the stability in financial performance with improvement in profitability in FY24 (refers to the period April 1 to March 31). The capital structure also witnessed improvement with overall gearing ratio improving from 0.75x as on March 31, 2023, to 0.59x as on March 31, 2024.

The ratings derive strength from the experienced management, strategic location of the plant near Paradip port which facilitates ease of import of raw materials, improvement in capacity utilisation and satisfactory debt coverage indicators.

However, the ratings are constrained by its customer concentration risk with around 76% of its revenue being derived from top five customers, volatility in the prices of raw materials and finished goods and cyclical nature of the steel industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining scale of operations beyond Rs.400 crore and improving PBILDT margin above 10%.
- Overall gearing below 0.5x and total debt to gross cash accruals reducing below 1.5x.
- Significant improvement in liquidity profile as reflected in working capital utilisation levels.

Negative factors

- Declining scale of operations below Rs.225 crore and moderating PBILDT margin below 7% on a sustained basis.
- Deteriorating overall gearing and TD/GCA above 0.75x and 3x respectively.
- Any debt-funded capex leading to deterioration in liquidity profile of the company.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the entity is likely to benefit from the experience of the promoters and maintain its profitability amidst fluctuating raw material cost.

Detailed description of the key rating drivers:

Key strengths

Experience of the promoters

NCML 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 is having 28 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

NCML procures coking coal from local suppliers who in turn import coking coal from Australia and other countries and its manufacturing unit is located at Baramana (Dist. Jajpur) Odisha which is around 100 km away from Paradip port which facilitates NCML 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.

Improvement in capacity utilisation

NCMPL is a relatively small player with an installed capacity of 75,000 MTPA. The company has been leasing capacity from other players, however the total capacity continues to remain small at 1,12,600 MTPA. With improved demand for the product, the capacity utilization (CU) witnessed improvement from 61% in FY23 to 98% in FY24.

The company is planning to set-up two additional Coke Oven Plants (2 Batteries) in the existing manufacturing facility in Orissa, with a combined capacity of approximately 48,000 metric tons. However, the same is in planning stage and nothing has been finalised as of now.

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

Improvement in profitability in FY24 albeit moderation witnessed in Q1FY25
The total operating income remained stable at Rs.265 crore in FY24 compared with FY23 despite increase in sales volume due to decline in average realisation. With decline in realisation for finished goods, the average purchase price of raw materials also witnessed decline in FY24 which led to improvement in PBILDT margin from 7.62% in FY23 to 8.64% in FY24 (Prov.). With improvement in operating margin, PAT margin also witnessed improvement from 5.71% in FY23 to 5.96% in FY24 (Prov.).
In Q1FY25, the company earned revenue of Rs.50 crore. The operating margin witnessed moderation to 7.52% in the quarter due to lower absorption of fixed costs with plant being shut for annual maintenance in the month of May 2024.

Improvement in capital structure with satisfactory debt coverage indicators
The capital structure witnessed improvement with overall gearing ratio improving from 0.75x as on March 31, 2023 to 0.59x as on March 31, 2024. The improvement is on account of accretion of profit to reserves. The interest coverage ratio stood satisfactory at 4.75x in FY24 compared with 5.18x in FY23. The debt coverage indicators continued to remain satisfactory with stable TDGCA of 1.96x as on March 31, 2024 (1.97x as on March 31, 2023).

Key weaknesses

Customer concentration risk
The majority of the revenue for the company is derived from few players (largely ferro alloy producers). In FY24, NCML derived around 76% (74% in FY23) of its revenue from top five customers, which indicates customer concentration risk. However, NCML sells its finished goods to its customers on a credit period of 10-15 days, thereby limiting the counterparty credit risk. To mitigate the customer concentration risk, NCML has started to diversify its customer base.

Volatility in the prices of raw material and finished goods
Coking coal is the major raw material cost for NCMPL (constituting around 87% of cost of sales in FY24). 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 is passed to the consumers with a certain time lag, the profitability of the company is susceptible to fluctuation in raw-material prices.

Cyclical nature of steel industry
NCML is in the business of manufacturing of Low Ash Metallurgical (LAM) coke which is required in the manufacturing of steel and in the ferro alloy industries so there is a high degree of dependence on the fortunes of the steel industry and related industries, which is cyclical in nature.

Liquidity: Adequate

Liquidity is marked adequate by the company earning GCA of Rs.19.50 crore vis-à-vis debt repayment obligations of Rs.2.45 crore in FY24. In FY25, the company has debt repayment obligation of Rs.1.87 crore in FY25 against which it is expected to generate sufficient cash accruals. However, the fund-based bank limit utilization stood almost fully utilized during the last 12 months period ended June 2024. The current ratio stood adequate at 1.57x as on March 31, 2024. The management has indicated its plan to raise equity which is expected to improve its liquidity profile.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, Gas & Consumable Fuels	Consumable Fuels	Coal

NCMPL was incorporated in 2003 by Dr. B D Chatterjee along with Mr. Bibhudatta Panda. NCMPL produces and sells sized coke, coke fines and LAM coke with the present installed capacity of 75,000 MTPA (owned) at Baramana (Dist. Jajpur) Odisha and 37,600 MTPA leased across Odisha and Vizag. The Company had entered into a one-time settlement with the lender in March 2018 wherein debt of Rs.40 crore was waived by the bank. The day-to-day operations of the company are looked after by Mr. Panda with the support of other professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	266.21	264.93	50.01
PBILDT	20.28	22.88	3.76
PAT	15.20	15.80	NA
Overall gearing (times)	0.75	0.59	NA
Interest coverage (times)	5.18	4.75	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	18.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	May 2029	5.43	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	8.75	CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-Letter of credit	ST	8.75	CARE A3	-	1)CARE A4+ (01-Sep-23)	1)CARE A4+ (27-Jun-22)	1)CARE A4 (03-Aug-21)
2	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (01-Sep-23)	1)CARE BB+; Stable (27-Jun-22)	1)CARE BB; Stable (03-Aug-21)
3	Fund-based - LT-Term Loan	LT	5.43	CARE BBB-; Stable	-	1)CARE BB+; Stable (01-Sep-23)	1)CARE BB+; Stable (27-Jun-22)	1)CARE BB; Stable (03-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: + 91-033-40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Kamal Mahipal Assistant Director **CARE Ratings Limited** Phone: + 91-033-40181628 E-mail: kamal.mahipal@careedge.in Onkar Verma Analyst **CARE Ratings Limited** E-mail: onkar.verma@careedge.in

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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in