Maithan Alloys Limited

December 31, 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 along-with sizeable presence in the export market, providing diversification to revenue. The ratings derive substantial comfort from the large portfolio of equity investments held by the company. Sharp decline in value of equity portfolio going forward, shall be a key rating monitorable. The capital structure is expected to remain strong going forward despite the company now utilising its fund-based working capital limits in the absence of any sizeable debt funded capex plans in the near term. Debt coverage indicators, however, witnessed moderation in H1FY25 in view of reduced profitability from its core operations.

The ratings continue to remain constrained by dependence of the ferro alloy industry on the cyclical steel sector, profitability susceptible margins to raw material and finished goods price volatility, working capital intensive operations and foreign exchange fluctuation risks. Ratings also take note of moderation in profitability margin in FY24 and H1FY25 considering decline in average sales realisation in line with the industry following correction in steel prices and slight reduction in sales volume (~5%) post exceptional performance in FY22 and FY23.

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 per tonne below ₹6000 on a sustained basis
- Net debt/PBILDT above 1x.
- Sharp decline in the value of equity portfolio.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated analytical approach considering operational and financial linkages of MAL with its subsidiaries. Companies consolidated are listed under **Annexure – 6**.

Outlook: Stable

Stable outlook reflects that despite moderation in operating 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 and liquid investments is expected to support its robust capital structure and liquidity profile.

Detailed description of 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 Sudhanshu Agarwalla (CFO), who have sound technical and managerial qualifications and experience. The promoters' experience and technical expertise have contributed to MAL establishing its strong foothold in an otherwise highly volatile ferro alloy industry. The company has large manufacturing capacity of 3,32,500

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

metric tonne per annum (MTPA), of which, 50,000 MTPA have been added in September 2024 with commencement of facility of Maithan Ferrous Limited. However, impex plant has been shut down since May 2023 owing to infeasibility of running the plant in the present scenario of low realisation of finished products and high-power cost. Also, production at Kalyaneshwari plant has been reduced to half of its capacity since July 2024.

Diversified operations with strategic location of the manufacturing facilities
MAL's manufacturing facilities are present in Kalyaneshwari and Bankura (West Bengal), Visakhapatnam and Bobbili (Andhra Pradesh) and Ri-Bhoi (Meghalaya). 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 at West Bengal and Meghalaya, it caters to international market through its plant at Visakhapatnam (being near to the port). Proximity to end-users due to presence of large number of steel players in East India for 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 presence in the export market
The company has sizeable presence in export markets with 56% of its consolidated total operating income (TOI) in FY24 (72% in FY23) being derived from exports. In FY24, MAL's share in the bulk ferro alloys exports from India (excluding export of ferro chrome and other ferro alloys) was ~4% (8% in FY23). In export market, MAL caters to reputed global players, some are also state-controlled entities. MAL gets repeat orders from its clients due to its established relationship with them. In the domestic market, MAL caters to reputed clients including Steel Authority of India Limited (SAIL; rated CARE AA; Stable/CARE A1+) and Tata Steel Limited (rated CARE AA+; Stable), which are large steel producers with high credit standings.

Strong financial risk profile, though operating margin moderated in FY24 & H1FY25
The operating income in FY24 saw a y-o-y degrowth of ~40% due to moderation in alloy prices and slight reduction in sales volume (~5%) post exceptional performance in FY22 and FY23. Decline in realisation for manganese alloys were sharper compared to decline in average purchase price (APP) of raw material. The power cost per tonne also increased due to revision in tariff and true-up and FPPCA claims by discoms. Lower gross margin (which reduced from 52% in FY23 to 47% in FY24), increase in power cost and lower production led to moderation in operating margin in FY24 and H1FY25. Operating margin is expected to remain subdued for ensuing quarters as the industry is currently undergoing downtrend.

Robust capital structure and debt coverage indicators, though moderated in H1FY25
The company has a robust capital structure with an overall gearing of 0.02x as on March 31, 2024, and March 31, 2023. Debt coverage indicators also remained robust with total debt/PBILDT of 0.45x as on March 31, 2024 (0.08x as on March 31, 2023). With nil term debt and low utilisation of fund-based limits, interest cost continued to remain low. The company does not have any capex plan during the period FY25-FY27, except capex of ₹50 crore for renewable energy projects, which is planned to be expended out of the available liquidity. In view of recent increase in working capital borrowings, the debt/PBILDT has increased to 2.68x and overall gearing ratio stood at 0.11x as on September 30, 2024. However, company remains net debt negative given significant liquid investments available. Going forward, maintenance of low gearing and high operational efficiencies shall remain crucial from credit perspective, as the company operates in a highly volatile ferro alloys industry, which is susceptible to vagaries of steel cycles.

Liquidity: Strong
Liquidity is marked by strong accruals over the years against nil term debt repayment obligations and free cash, liquid and equity investments to the tune of ₹2,295 crore as on March 31, 2024, and ₹3,418 crore as on September 30, 2024, on a consolidated basis. Utilisation of fund-based working capital limits was ~28% for 12-months ended October 2024. With an overall gearing of 0.02x as on March 31, 2024, 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 tonne of stainless steel manufactured and ~0.7% manganese is required for every tonne of steel. This is met through alloys of chromium and manganese. Thus, there exists a strong co-relation between growth of ferro alloy industry and steel industries.

Susceptibility of profitability to volatile raw material and finished goods price

Manganese ore, coal and coke are the major raw materials required, which constituted ~51% of total cost of sales in FY24 (45% in FY22). It purchases power from state power utilities and the power costs have seen an increase in since FY24. The price of manganese ore and coke is highly volatile and realisation of the ferro alloys is also governed by performance of the end-user steel industry. Thus, MAL's profitability is highly susceptible to fluctuation in raw materials and finished goods prices. Due to its strong management and cost-effective operations, the company has been able to manage these fluctuations somewhat better in the past against the peers. Its PBILDT/tonne, which was ₹25,198 in FY23 significantly declined to ₹5,985 in FY24 and partially recovered in H1FY25 to ₹8,028. Operating margin got impacted in FY24 and is expected to remain weak in FY25, as well with recovery largely expected from H2FY26 onwards.

Decline in Capacity Utilisation (CU)

The CU declined to 75% in FY24 (from 83% in FY23) and 60% in H1FY25 due to shut down of the Impex plant since May 2023 considering infeasibility of running the plant in the present scenario of low realisation of finished products and high power cost. The plant was expected to resume operations in 18 months from shut down. However, due to continued unfavourable scenario, the management decided to continue the shutdown. Plant is expected to resume operations on reversal of current demand supply scenario.

Working capital intensive nature of operation

MAL's operations are working capital intensive as it offers credit period of around two months to its customers, as it sells products 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 135 days in FY24, increased from 128 days in FY23. Though total receivables have decreased as on March 31, 2024, compared to March 31, 2023, receivables period has increased from 70 days in FY23 to 84 days in FY24. Decrease in inventory period from 86 days in FY23 to 77 days in FY24, was offset by increase in collection period, resulting in overall increase in the operating cycle. As profit from the ferro alloy business is being deployed for investing activity, the company has started availing its unutilised fund-based limits; increasing its working capital debt in H1FY25.

Foreign exchange fluctuation risk

MAL imports manganese ore from South Africa and Gabon (~80%) and Australia (~20%). The company imports ~90% of its raw-material requirement (mainly manganese ore). The company has a strong presence in export market with exports contributing to ~56% of its TOI in FY24. Hence, the company enjoys natural hedge to an extent and for the remaining portion, it hedges net foreign currency exposure through forward contracts, mitigating foreign currency fluctuation risk to a large extent.

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 minimise impact on- - Human Life and other living beings - Environment and related eco systems - Economic losses 2. The entire Power consumption, which is ~25-30% of total input cost, requirements in the process of manufacturing 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 number 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 per prescribed norms. 2. The company has systems relating to occupational health and safety management in place and covers all three manufacturing units. 3. The company spent ₹12.73 crore towards Corporate Social Responsibility (CSR) in FY24 (₹10.85 crore in FY23), which was in line with the amount required to be spent.
Governance	1. The company's Board of Directors comprises eight Directors two Executive Directors, six Non-Executive Independent Directors including one Woman Director. 2. The company has a robust grievance redressal system, and it solved all complaints received in FY24 and no complaint was pending for redressal as on March 31, 2024.

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]
[Iron & Steel]
[Consolidation]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & mining	Ferrous metals	Ferro & silica manganese

Incorporated in 1985, MAL is engaged in manufacturing ferro alloys, having an installed capacity of 169 MVA (3,32,500 MT of ferro Alloys) at five locations 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, 46,900 MTPA at Bobbili, Andhra Pradesh and 50,000 MTPA at Bankura, West Bengal. The Meghalaya unit has a captive power plant of 15 MW, which is not operational since January 2019. MAL is also engaged in trading metal & mineral products and wind power generation. The company's day-to-day operations are looked after by S. C. Agarwalla with support from his two sons, Subodh Agarwalla and Sudhanshu Agarwalla.

Brief Financials - Consolidated (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	2,899.25	1,737.17	839.29
PBILDT	601.16	118.26	70.65
PAT	498.99	347.10	598.75
Overall gearing (times)	0.02	0.02	0.11
Interest coverage (times)	268.38	39.03	9.92

A: Audited UA: Unaudited; 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 facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and 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 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 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	400.00	CARE A1+	-	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Sep-21)
2	Non-fund-based - ST-Bank Guarantee	ST	35.00	CARE A1+	-	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Sep-21)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-24)	1)CARE AA; Stable (05-Dec-22)	1)CARE AA; Stable (06-Sep-21)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	15.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Jan-24)	1)CARE AA; Stable / CARE A1+ (05-Dec-22)	1)CARE AA; Stable / CARE A1+ (06-Sep-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	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 entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Anjaney Minerals Ltd	Full	Subsidiary
2.	Salanpur Sinters Pvt Ltd	Full	Subsidiary
3.	AXL Explorations Pvt Ltd	Full	Subsidiary
4.	Maithan Ferrous Pvt Ltd	Full	Subsidiary
5.	Impex Metal and Ferro Alloys Ltd	Full	Subsidiary
6.	Ramagiri Renewable Energy Ltd	Full	Subsidiary

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.

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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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