

Nilachal Carbo Metalicks Private Limited

June 27, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	9.33 (Enhanced from 6.78)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	8.75	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Bank Facilities	18.08 (₹ Eighteen Crore and Eight Lakh Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the Bank Facilities of Nilachal Carbo Metalicks Private Limited (NCMPL) is on account of sustained improvement in financial performance in FY22 (prov; refers to the period April 01 to March 31) with satisfactory liquidity and debt coverage indicators. The ratings further derive strength from strategic location of the plant and experience of the promoters. However, the ratings continue to remain constrained by its small scale of operations, volatility in the prices of raw material and finished goods, customer concentration risk and cyclical nature of the steel industry. The ratings are also constrained by one-time settlement entered with lender in the past wherein debt of Rs.40 crore was waived by the bank.

Rating sensitivities

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

- Sustenance in scale of operations beyond Rs.300 crore and improvement in PBILDT margin at 9%.
- Overall gearing below 0.5x and total debt to gross cash accruals reducing below 1.5x.
- Sustenance of operating cycle and improvement in liquidity profile.

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

- Decline in scale of operations and moderation in PBILDT margin below 5%.
- Deterioration in overall gearing and TD/GCA above 1.5x and 5x respectively.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

NCMPL is a relatively small player with an installed capacity of 75,000 MTPA. With its small size, the company does not get benefit from economies of scale and during financial stress it may impact the business as compared to large players in same industry. The capacity utilization (CU) level improved slightly and stood at 74% in FY22 (71% in FY21) on the back of modification done in the plant such as replacement of refractory lining in the ovens leading to better efficiency.

Volatility in the prices of raw material and finished goods

Coking coal is the major raw material cost for NCMPL (constituting around 88% of cost of sales in FY22). Since the raw material is a 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.

Customer concentration risk

Majority of the revenue for the company is derived from few players like are ferro alloy producers. In FY22, NCMPL derived around 83% (78% in FY21) of its revenue from top 4 customers which indicates customer concentration risk. However, long standing relationship with these clients over the years mitigates the risk to some extent.

Cyclical nature of steel industry

NCMPL 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.

Key Rating Strengths

Experience of the promoters

NCMPL 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

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

venturing into LAM coke manufacturing and is having 27 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

NCMPL 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 NCMPL 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.

Sustained improvement in financial performance in FY22

The total operating income of the company improved to Rs.199.48 crore in FY22 (Prov.) from Rs.116.07 crore in FY21 on account of increase in volume sold and increase in sales realisation. The company has been able to maintain its PBILDT margins at 8.50% in FY22, albeit a slight decline from 9.76% in FY21. The company reported GCA of Rs.14.23 crore vis-à-vis debt repayment obligation of Rs.3.51 crore and free cash balance of Rs.5.77 crore as on March 31, 2022. The financial performance remained consistent over the last three years with significant improvement in FY22.

Satisfactory capital structure and debt coverage indicators

Due to high losses in FY16, the company's net worth was eroded, and it was unable to service the debt obligation on time and the account was classified as NPA by SBI in March 2016. In March 2018, the company had done an OTS with SBI by virtue of which its debt of Rs.65 crore was settled for Rs.26.5 crore which was paid off by September 2019. Hence the debt to an extent of Rs.40.05 crore has been written back and net worth became positive to Rs.15.54 crore as on March 31, 2020, as against negative net worth as on March 31, 2019.

Further, the overall gearing ratio and debt coverage parameters remained at satisfactory level post one-time settlement of debt and write-back of liabilities resulting in improved networth as on March 31, 2022. The overall gearing ratio remained satisfactory at 1.18x as on March 31, 2022. Interest coverage improved from 3.40x in FY21 to 5.08x in FY22 (Prov.) on account of increase in PBILDT even though the interest cost remained largely stable. Total Debt/GCA improved to 2.68x as on March 31, 2022, from 3.01x as on March 31, 2021.

Liquidity: Adequate

Liquidity is marked by gross cash accruals of Rs.14.23 crore vis-à-vis debt repayment obligations of Rs.3.51 crore and free cash balance of Rs.5.77 crore as on March 31, 2022. The fund-based bank limits and non-fund-based limits are utilized on an average to the extent of around 22% and around 100% in last 12 months ended March 31, 2022, respectively. The current ratio stood below unity at 0.84x as on March 31, 2022.

The working capital cycle of the company was comfortable and stood negative mainly on the back of usage of LC (procurement of coking coal) of usance period of 30-90 days. NCMPL sells its finished product to its customers on a credit period of 10-15 days. The average inventory period was 25 days in FY22 (21 days in FY21).

Analytical approach

Standalone

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](#)

[Manufacturing Companies](#)

About the company

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 at Baramana (Dist. Jajpur) Odisha. The day-to-day operations of the company are looked after by Mr. Panda with the support of other professionals.

Brief Financials (₹ crore)	FY21 (A)	FY22 (P)	2MFY23 (P)
Total operating income	116.07	199.48	42.00
PBILDT	11.32	16.96	NA
PAT	5.52	11.27	NA
Overall gearing (times)	1.15	1.18	NA
Interest coverage (times)	3.40	5.08	NA

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated 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
Non-fund-based - ST-Letter of credit		-	-	-	8.75	CARE A4+
Fund-based - LT-Cash Credit		-	-	-	1.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	April 2029	8.33	CARE BB+; Stable

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 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	8.75	CARE A4+	-	1)CARE A4 (03-Aug-21)	1)CARE A4 (30-Sep-20)	1)CARE A4 (10-Feb-20)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BB+; Stable	-	1)CARE BB; Stable (03-Aug-21)	1)CARE B+; Stable (30-Sep-20)	1)CARE B+; Stable (10-Feb-20)
3	Fund-based - LT-Term Loan	LT	8.33	CARE BB+; Stable	-	1)CARE BB; Stable (03-Aug-21)	1)CARE B+; Stable (30-Sep-20)	1)CARE B+; Stable (10-Feb-20)

Annexure-3: Detailed explanation of the covenants of the rated 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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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