IFGL Refractories Ltd.

April 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term/ Short term Bank Facilities	65.00	**CARE AA-; Stable/ CARE A1+ (Double A minus; Outlook: Stable/ A One plus)**	Reaffirmed
Short-term Bank Facilities	8.00	**CARE A1+ (A One plus)**	Reaffirmed
Total Facilities	**73.00 (Rs. Seventy Three Crore only)**		
Short Term Debt (including Commercial Paper)*	10.00	**CARE A1+ (A One plus)**	Reaffirmed
Total Instruments	**10.00 (Rs. Ten Crore only)**		

Details of instruments/facilities in Annexure-1 **carved out of fund based working capital limit*

Detailed Rationale & Key Rating Drivers

The above ratings continue to draw strength from the experience of the promoters and their strong technical collaboration, established position in the domestic refractory segments, satisfactory financial position with comfortable gearing and strong debt protection metrics. The ratings are, however, constrained by price volatility of the raw materials with limited pricing power, exposure to group companies, foreign exchange fluctuation risk, major dependence on the fortunes of steel industry with increasing competition arising out of cheaper imports and presence of a number of unorganized players.

The sales price realization coupled with the movement of Euro currency vis-à-vis Rupee, key raw material prices and prospects of the steel industry remain the major ratings sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with strong management

Shri S K Bajoria, Chairman, the main promoter, has wide experience in manufacturing of special refractories. He was also the former President of the Indian Chamber of Commerce, Kolkata, former Director of West Bengal Industrial Corporation Ltd. and Industrial Promotion & Investment Corporation of Orissa Ltd and Honorary Vice Counsel of Denmark in Eastern India. Shri P Bajoria, MD, is associated with the group for around three decades and has wide experience in the refractory industry.

Strong technical collaboration

IFGL is engaged in manufacturing of specialized refractories like continuous casting refractories and slide gate refractories. The plant was set up in technical collaboration with Krosaki Harima Corporation (KHC), Japan. KHC is an associate company of Japan's largest steel maker Nippon Steel Corporation and is a leading refractories player with a global presence and advanced technology.

Established position in the domestic refractory segments

IFGL is one of the few refractory manufacturers in India with a market presence across the country with a market share of around 15%. Steel plants, which account for up to 90% of demand for refractories are among the major customers of IFGL. The company has longstanding relationships with various steel plants due to which it is able to garner regular orders.

Price volatility of the raw materials with limited pricing power

The main raw materials used in the manufacturing process are magnesia, bauxite, silicon carbide, alumina and graphite, the prices of which are volatile. Majority of these raw materials are imported from China and the prices of the raw materials have risen in the recent years. Further, the refractory players have limited bargaining power with large steel companies being its customers, it is unable to pass on the hike in raw material prices resulting in pressure on profitability margin.

Financial risk profile marked by comfortable gearing and debt coverage indicators

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Net sales declined by around 10% in FY16 vis-à-vis FY15 occasioned out of decrease in the sales volume over preceding financial year and lower realisation arising out of depreciation of Euro vis-à-vis Rupee. PBILDT margin, though declined on account of decline in the capacity utilization leading to under-absorption of fixed cost, remained at satisfactory levels. However GCA remained extremely comfortable at Rs.23.9 crore vis-à-vis term loan repayment obligation of Rs.2.7crore in FY16.

The company has paid off its entire long term debt (except for the vehicle loan) in FY16 with little reliance on the working capital loan, resulting in significant improvement in the overall gearing ratio, which has improved to 0.23 times as on Mar.31, 2016 against 0.33 times as on March 31, 2015. The debt coverage indicators also remain comfortable with total debt to GCA at 1.61 times as on Mar.31, 2016.

During 9MFY17, the company has reported PAT of Rs.10.6 crore on a Total Operating Income of Rs.248.8 crore.

Key Rating Weaknesses

Exposure to group companies

IFGL had an aggregate funded exposure of Rs.67.3 crore (around 40% on its networth) as on March 31, 2016, in the form of long term investments & loans and advances to the group companies. In addition, IFGL has provided corporate guarantee to the tune of Rs.27.5 crore as on March 31, 2016 to its subsidiary, IFGL Exports Ltd. (IEL).

While the investment in the subsidiary, IFGL Worldwide Holdings Ltd. had been utilized for acquisition of various companies engaged in the same line of business in countries like UK, USA, Brazil, China, Germany and Czech Republic and strengthening its market exposure, the corporate guarantee was extended to banks for extending loans to its subsidiary, IEL for setting the plant of Continuous Casting Refractories (90,000 pcs p.a.) at Kandla Special Economic Zone (SEZ), Gujarat.

The subsidiary (IEL) announced COD in May 2012 and thereafter its performance has been improving year on year.

The consolidated financials of IFGL has remained satisfactory over the years with Total Income & PAT being Rs.722.1 crore & Rs.45.2 crore respectively in FY16. Gearing ratio at the consolidated level also improved to 0.21 times as on Mar. 31, 2016 as against 0.33 times as on Mar. 31, 2015.

Foreign exchange fluctuations risk

IFGL Refectories Ltd (IFGL) has exposure in foreign currency in the form of raw materials import & exports. The company imports around 50-55% (Rs.52.8 crore in FY16) of its total raw material requirement mainly in Dollar & Euro. Further, IFGL exports around 50-55% (Rs.144.5 crore in FY16) of its total turnover in Euro (majorly), Dollars and Pound, thus providing natural hedging to a greater extent. IFGL also takes forward cover at an opportune time to negate the currency fluctuations.

Increasing competition arising out of cheaper imports and presence of unorganized players

Refractory industry is highly fragmented with more than 150 players of which around 15 -16 are major players. Indian refractory industry also faces a huge threat in the form of competition from cheap refractory products dumped from China which has captured more than 25% of the total market. Due to highly competitive nature of the refractory industry, players experience limited pricing flexibility and therefore work under high pressure on margins.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

IFGL, incorporated in 1989, is the flagship company of S K Bajoria group of Kolkata. The company is engaged in manufacturing of special refractories and operating systems for the steel industry and bio-ceramic products at its factory at Kalunga Industrial Estate near Rourkella, Orissa. Currently, the company has aggregate manufacturing capacity of shaped refractories (7,76,000 pcs), unshaped refractories (24,000 MT), shaped ceramics (10,000 pcs) and unshaped ceramics (50.0 kg).

IFGL earned PBILDT of Rs.34.1 crore (Rs.45.5 crore in FY15) and PAT (after defd. tax) of Rs.18.6 crore (Rs.26.9 crore in FY15) on Total Operating Income of Rs.304.2 crore (Rs.334.7 crore in FY15) in FY16. During 9MFY17, the company has reported PAT of Rs.10.6 crore on a Total Operating Income of Rs.248.8 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	8.00	CARE A1+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	65.00	CARE AA-; Stable / CARE A1+
Commercial Paper-CP/STD	-	-	7-364 days	10.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper-CP/STD	ST	10.00	CARE A1+	-	1)CARE A1+ (07-Jul-16)	1)CARE A1+ (17-Jul-15)	1)CARE A1+ (07-Oct-14)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Jul-16)	1)CARE AA- (17-Jul-15)	1)CARE AA- (07-Oct-14)
3.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A1+	-	1)CARE A1+ (07-Jul-16)	1)CARE A1+ (17-Jul-15)	1)CARE A1+ (07-Oct-14)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (07-Jul-16)	1)CARE AA- / CARE A1+ (17-Jul-15)	1)CARE AA- / CARE A1+ (07-Oct-14)

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