Maithan Alloys Limited

February 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**130.99**	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short-term Bank Facilities	**430.00**	**CARE A1+ (A One Plus)**	Reaffirmed
	560.99 (Rupees Five Hundred Sixty Crore and Ninety Nine Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of Maithan Alloys Limited (MAL) takes into account the significant improvement in the financial and operational performance of the company in Q2 and Q3 of FY18, significant improvement in liquidity position and comfortable debt coverage indicators.

The ratings continue to draw strength from the experienced promoters with established presence of the company in ferro alloy industry, presence of manufacturing facilities across diverse locations in India, established and reputed clientele, strong presence in the export market and high capacity utilisation.

The ratings are, however, constrained by susceptibility of profitability to volatile input and finished goods prices, lack of backward integration, foreign exchange fluctuation risk, presence in a single product segment, working capital intensive nature of operation and dependence of ferro alloy industry on cyclical steel industry.

The ability of the company to improve its scale of operation while maintaining its operating margin in the cyclical industry scenario and any major debt funded expansion/acquisition adversely impacting the capital structure and debt protection metrics would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established presence in the ferro alloy industry

Mr. S. C. Agarwalla, the current promoters has an experience of around three decades in the ferro alloy industry. 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 (CEO) & Mr. Sudhanshu Agarwalla (CFO).

Presence of manufacturing facilities across diverse locations in India

The company's manufacturing facilities are present in West Bengal, Meghalaya and Andhra Pradesh, providing access to both domestic and international market at competitive price, due to optimization of freight costs.

Established & reputed clientele along with strong presence in the export market

MAL's top 10 customers account for around 70% of net sales during FY16-FY17. Furthermore, MAL is getting repeat orders from its clients due to established relationship with them for a long period. MAL has strong presence in export market, with export increasing from Rs.541 crore in FY16 to Rs.660 crore in FY17, representing 50% of total operating income in FY17.

High capacity utilization

The capacity utilisation of MAL improved from 88% in FY16 to 90% in FY17 due to increased sale in both domestic and export market. The capacity utilization further improved to 97% in 9MFY18 owing to the revival in steel demand.

Significant improvement in financial and operational performance of the company in Q2 and Q3 of FY18

The financial performance has witnessed more than expected improvement during Q2 and Q3 of FY18. Sales witnessed improvement due to higher sale of ferro manganese and increasing realization of its products. PBILDT margin improved due to healthy realization of the finished goods in Q2 and Q3 FY18 vis-à-vis raw materials cost. Furthermore, lower fixed charge (due to lower interest cost on account of lower debt and lower working capital utilization) improved the PAT margin in 9MFY18. Company earned robust GCA of Rs.216 crore in 9MFY18. MAL earned PAT of Rs.204.37 crore on the total operating income of Rs.1,461.22 crore (PAT of Rs.96.24 crore on total operating income of Rs.929.25 crore in 9MFY17). The company is expected to benefit from the robust sales realization of ferro alloys in the medium term.

Significant improvement in liquidity position and comfortable debt coverage indicators

The interest coverage improved significantly to 103.05x in 9MFY18 from 22.69x in FY17. The capital structure of the company improved due to the accretion of profit and also reduced level of term debts coupled with low utilization of

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

working capital. Total debt/GCA improved from 0.54x as on March 31, 2017 to 0.43x as on December 31, 2017. Debt / PBILDT was highly comfortable at 0.33x as on December 31, 2017. The cash and bank balance (including liquid investments) improved from Rs.80.75 crore as on March 31, 2017 to Rs.213.50 crore as on December 31, 2017 which further improved to Rs.306.5 crore as on January 31, 2018, and almost nil utilization of available fund based limits signifying significant improvement from liquidity perspective.

Key Rating Weaknesses

Susceptibility of profitability to volatile input and finished goods price

The raw material (manganese ore, coal and coke) is the largest component of cost of sales of ferro alloys, accounting for 59%, followed by power (26%). Given that the price of raw material and finished goods are highly volatile, MAL's profitability is susceptible to fluctuation in prices of the same.

Lack of backward integration

Raw material consumption and power are the major cost components for ferro alloy industry. MAL doesn't have backward integration for its major raw material exposing it to availability and price risk. Further, MAL has captive power plant (15 MW) in only one of its units i.e. in Meghalaya and it sources power from Damodar Valley Corporation for its unit in WB and Andhra Pradesh Eastern Power Distribution Company Ltd for its AP unit. Hence, the profitability is also susceptible to any future tariff hike by these utilities.

Foreign exchange fluctuation risk

MAL imports around 80% of its manganese ore requirement. Moreover, MAL also has presence in export market. On an overall basis, MAL is a net exporter of ferro alloys. As such, the company is exposed to foreign exchange fluctuation risk.

Working capital intensive nature of operation, however improved significantly in 9MFY18

MAL's operation is working capital intensive in nature as it has to offer credit period for around 1-2 months to its debtors due to intense competition in the industry and has a policy to maintain inventory for about 2 month. The working capital cycle of the company improved significantly to 53 days in 9MFY18 from 84 days in FY17 due to efficient receivables management and lower inventory holding period.

Dependence of ferro alloy industry on cyclical steel industry

Ferro alloys are primarily used for producing mild steel, carbon steel, special alloy steel and stainless steel and thus its demand is derived from steel industry. The capacity utilization of Indian crude steel industry slightly improved from 76% in FY16 to 77% in FY17 due to a) increase in domestic consumption (+3%) and b) net exports of 1.02 MT in FY17 vis-à-vis net imports of 7.6 MT in FY16. The capacity utilization is expected to witness continued improvement in the near future due to improvement in supply demand fundamental on the back of limited capacity addition, increased domestic as well as Chinese consumption.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company

MAL, incorporated in 1985, is engaged in the manufacturing of ferro alloys, having an installed capacity of 136 MVA (i.e. 2,35,000 MT of ferro Alloys) at three locations i.e. 49 MVA at Kalyaneshwari, West Bengal, 15 MVA at Ri-Bhoi, Meghalaya and 72 MVA (4 x 18 MVA) at Visakhapatnam, Andhra Pradesh. The Meghalaya unit has a captive power plant of 15 MW. MAL is also engaged in the trading of metal & mineral products and wind power operation.

Anajney Alloys Ltd (AAL), a wholly owned subsidiary engaged in manufacturing of ferro alloys (72 MVA i.e. 1,20,000 MTPA), was merged with MAL w.e.f. April 01, 2015. Under the scheme, net assets aggregating Rs.65.89 crore (comprising assets of Rs.370.32 crore and liabilities of Rs.304.43 crore) of AAL were transferred to MAL.

MAL was originally promoted by Mr. B K Agarwalla of Dhanbad (Jharkhand) and Mr. S C Agarwalla of Asansol (West Bengal). In FY17, the group business was divided between the two promoter families and the promoters' share in MAL was transferred to Mr. S. C. Agarwalla faction (presently holding 70.7% equity shares in MAL).

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total income	1150.83	1333.68
PBILDT	131.14	272.07
PAT	79.03	197.69
Overall gearing (times)	0.67	0.21
Interest coverage (times)	7.93	22.69

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: NA

Rating History (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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About CARE Ratings:

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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-Letter of credit	-	-	-	400.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	30.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE AA-; Stable
Fund-based - LT-External Commercial Borrowings	-	-	March 2019	40.99	CARE AA-; Stable

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.	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	1)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)	1)CARE A1+ (14-Oct-15)	1)CARE A1 (10-Oct-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	30.00	CARE A1+	1)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)	1)CARE A1+ (14-Oct-15)	1)CARE A1 (10-Oct-14)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA-; Stable	1)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)	1)CARE A+ (14-Oct-15)	1)CARE A+ (10-Oct-14)
4.	Fund-based - LT-External Commercial Borrowings	LT	40.99	CARE AA-; Stable	1)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)	-	-

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