Maithan Alloys Limited

September 28, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**99.02 (reduced from 130.99)**	**CARE AA; Stable (Double A; Outlook: Stable)**	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short-term Bank Facilities	**430.00**	**CARE A1+ (A One Plus)**	Reaffirmed
	529.02 (Rupees Five Hundred Twenty Nine Crore and Two 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 improvement in the financial risk profile of the company marked by improved profit levels, capital structure and liquidity position in FY18 & Q1FY19.

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.

Promoters of MAL have also articulated the policy of overall leverage of MAL, that in future at all times, it shall not exceed 0.50 times. Considering the nature of business where cyclicality is inherent, management recognises that maintaining low financial risk and strong operating efficiencies is extremely crucial from credit profile perspective. The upgrade in rating factors in this enunciation centrally in the analysis.

The ratings are, however, constrained by susceptibility of profitability to volatile input and finished goods prices, lack of backward integration, foreign exchange fluctuation risk, 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 healthy liquidity and profitability margin as envisaged and adherence to the leverage policy as mentioned above are the key rating sensitivities.

Detailed description of 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 Andhta 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 FY17-FY18. 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.660 crore in FY17 to Rs.1020 crore in FY18, representing around 55% of total operating income in FY18.

High capacity utilization

The capacity utilization of MAL improved from 90% in FY17 to 96% in FY18 mainly due to increased sale in the export markets.

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

The financial performance of MAL has improved significantly in FY18. Total operating income grew by 39.74% y-o-y in FY18 which was mainly driven by the increase in realization and sales volume of ferro manganese. Although the PBILDT margin, remained at similar levels, higher sales, supported by higher export incentives in the back of increased exports, led to a significant increase in absolute PBILDT which grew at 34% to Rs.364 crore in FY18. The company earned GCA of Rs.306

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

crore in FY18 vis-à-vis GCA of Rs.218 crore in FY17. MAL has principal debt repayment of Rs.44.05 crore during FY19. In Q1FY19, MAL reported a PAT of Rs.59 crore on an operating income of Rs.445 crore.

Comfortable capital structure and debt coverage indicators and significantly improved liquidity profile

MAL's overall gearing ratio improved from 0.22x as on Mar 31, 2017 to 0.19x as on Mar 31, 2018 owing to accretion of healthy profit to reserves. Total debt/GCA improved significantly from 0.59x as on March 31, 2017 to 0.53x as on March 31, 2018. The cash and bank balance (including liquid investments) improved from Rs.143 crore as on March 31, 2017 to Rs.366 crore as on March 31, 2018 which further improved to around Rs.500 crore as on September 24, 2018. In addition, the low fund based utilization of MAL also supports its liquidity.

Promoters of MAL have also articulated the policy of overall leverage of MAL, that in future at all times, it shall not exceed 0.50 times. Considering the nature of business where cyclicality is inherent, management recognises that maintaining low financial risk and strong operating efficiencies is extremely crucial from credit profile perspective. The upgrade in rating factors in this enunciation centrally in the analysis.

Key rating weakness

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 56%, followed by power. 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. However, 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 90% of its manganese ore requirement. Due to presence in export market, on an overall basis, MAL is a net exporter of ferro alloys. However, the company is exposed to foreign exchange risk due to timing difference between foreign currency receivables and payables.

Working capital intensive nature of operation

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 ranged from 74-84 days in the last three years.

Dependence of ferro alloy industry on cyclical steel industry

Ferro alloy market segment is categorised into alloy steel, carbon steel, stainless steel and others. Stainless steel accounted for over three quarters of the ferro alloy market in 2015, and will witness a significant growth owing to increasing demand in various end user industries. Due to lack of viable alternatives, the future of global ferro alloy market is healthy, expanding at an estimated CAGR of 5.90% during the forecast period of 2017-2025. The prosperity of the building and construction industry in a number of emerging economies is another key driver, wherein development of lightweight and high strength steel grades is expected to open new opportunities. On the other hand, stringent government regulations pertaining to environment and high operational costs are two glaring constraints over the global ferro alloy market. The market for ferro alloys, worldwide, is projected to reach a valuation of US$188.7 bn by the end of 2025 from US$112.8 bn in 2016. In 2017, Asian Pacific accounted for 79.5% of the overall demand in the global ferro alloys market, and is expected to exhibit the best CAGR among all regions throughout the forecast period. Source: Steelmint

Analytical approach: Standalone Approach.

Applicable criteria:

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

About the Company

Maithan Alloys Limited (MAL), incorporated in 1985, is engaged in the manufacturing of ferro alloys, having an installed capacity of 136 MVA (i.e. 235,600 MT of ferro Alloys) at three locations i.e. 49 MVA (94,600 MTPA) at Kalyaneshwari, West Bengal, 15 MVA (21,000 MTPA) at Ri-Bhoi, Meghalaya and 72 MVA (4 x 18 MVA; 1,20,000 MTPA) 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.

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 & Mr. Sudhanshu Agarwalla.

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1333.08	1862.73
PBILDT	271.89	364.29
PAT	185.67	291.75
Overall gearing (times)	0.22	0.19
Interest coverage (times)	22.02	46.58

A: Audited

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.*

Analyst Contact:
Name: Mr. Anil More
Tel: 033-4018 1623
Mobile: 8444 867144
Email: anil.more@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of 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	9.02	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)	1)CARE A1+ (14-Oct-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	30.00	CARE A1+	-	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)	1)CARE A1+ (14-Oct-15)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)	1)CARE A+ (14-Oct-15)
4.	Fund-based - LT-External Commercial Borrowings	LT	9.02	CARE AA; Stable	-	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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