Maithan Alloys Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	90.00	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Long-term/Short Term Bank Facilities	15.00	**CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/A One Plus)**	Reaffirmed
Short-term Bank Facilities	435.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**540.00 (Rupees Five Hundred and forty crore only)**		

Details of instruments/facilities in Annexure-1
For classification of instruments/facilities please refer to Annexure-3

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Maithan Alloys Ltd (MAL) continue to draw strength from experienced promoters with established presence in the ferro alloy industry, strategic location of the manufacturing facilities, established and reputed clientele along with strong presence in the exports market, high capacity utilisation albeit moderation in Q1FY21 mainly on account of lock down in the month of April 2020, comfortable financial performance albeit moderation in FY20 (refers to period April 1 to March 31) and Q1FY21, comfortable capital structure & debt coverage indicators and strong liquidity profile.

Promoters of MAL have articulated the policy of overall leverage of MAL that, in future at all times, it shall not exceed 0.50 times. Further the management has also articulated that company's manufacturing PBILDT margin is expected to remain above 12% on an average at all 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. Maintaining healthy liquidity & profitability margin and adherence to the leverage policy shall be the key rating monitorable.

The ratings, however, factors in the dependence of ferro alloy industry on the cyclical steel industry, susceptibility of profitability to volatile raw material and finished goods prices, lack of backward integration, working capital intensive nature of operations and foreign exchange fluctuation risk.

<u>Rating Sensitivities</u>

Positive Factors

- Substantial Increase in operating income and improvement in operating margin

Negative Factors

- Decline in operating income below Rs.1500 crore and manufacturing PBILDT margin on an average below 12%.
- Deterioration of capital structure and debt protection metrics beyond 0.5x and 2x respectively
- Worsening of operating cycle beyond 100 days
- Reduction in liquidity level below Rs.500 crore

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established presence in the ferro alloy industry

The promoter Mr. Subhas Chandra Agarwalla has an experience of around three decades in the ferro alloy industry. He is ably supported by his sons- Mr. Subodh Agarwalla (Whole-time Director and CEO) & Mr. Sudhanshu Agarwalla (CFO) who look after the day to day operations of the company. The experience of the promoters has helped MAL establish a name in the market to become a leading producer of ferro alloys in India.

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

Strategic location of the manufacturing facilities
MAL's manufacturing facilities are present in Kalyaneshwari (West Bengal), Visakhapatnam (Andhra Pradesh) and Ri-Bhoi (Meghalaya). The manganese ore requirements are met through imports from South Africa, Gabon and Australia. Coke is imported from China for Visakhapatnam unit and purchased from Dhanbad for Kalyaneshwari unit and from Guwahati for the Meghalaya unit. While the company mostly caters to the domestic market through its plant in West Bengal & Meghalaya, it caters to international market through its plant in Visakhapatnam. Proximity to end users, due to presence of large number of steel players in East India for the domestic sales and presence near the ports for export sales and imported raw materials results in optimal freight and inventory holding costs, leading to competitive pricing.

Established & reputed clientele along with strong presence in the export market
Around 60% of MAL's domestic sales in FY20 (80% in FY19) is to Steel Authority India Ltd. Although concentrated in domestic market, counter party risk is mitigated to a large extent due to SAIL being a government entity.
In FY20, MAL derives 44% of the total operating income from exports as against 53% in FY19. In FY20, MAL's share of the bulk ferro alloys exports from India (excluding ferro chrome and other ferro alloys exports from India) was around 12%. For its exports, MAL caters to reputed and large global players, some of which are also State-controlled entities. MAL is getting repeat orders from its clients due to established relationship with them.

High capacity utilization albeit moderation in Q1FY21
The capacity utilization continued to be optimum at 97% in FY20 (96% in FY19). However, due to temporary shutdown owing to COVID-19 induced lockdown, MAL lost one month of production and the capacity utilization in Q1FY21 stood at 62%.

Comfortable financial performance albeit moderation in FY20 & Q1FY21
Total operating income (TOI) declined y-o-y by ~8% in FY20 to Rs.1830.88 crore. PBILDT margin of the company also deteriorated from 16.33% in FY19 to 12.83% in FY20 due to decline in spreads. With nil term debt and low utilization of fund based limits, the interest cost continued to remain low and accordingly interest coverage continued to be comfortable at 39.88x in FY20 (39.51x in FY19). The company reported gross cash accruals of Rs.230.45 crore as against negligible repayment obligations.
In Q1FY21, the TOI declined by 45% Y-o-Y to Rs.265.69 crore in view of nation-wide lockdown from March 25, 2020. However, PBILDT margin improved from 14.09% in Q1FY20 to 15.56% in Q1FY21 Interest coverage improved from 64.57x in Q1FY20 to 243.12x in Q1FY21. In Q1FY21, the company reported gross cash accruals of Rs.39.13 crore as against nil term debt repayment obligations.

Comfortable capital structure & debt coverage indicators
Overall gearing and TD/GCA remained comfortable at 0.05x and 0.27x respectively as on Mar 31, 2020 as against 0.21x and 0.83x respectively as on Mar 31, 2019. Overall gearing and TD/GCA remained comfortable at 0.03x and 0.22x respectively as on Jun 30, 2020.
The company had announced a greenfield project (construction expected to start from FY23 onwards) towards the manganese based ferro alloys unit in Bankura, West Bengal for which it has set up a subsidiary, Maithan Ferrous Private Limited. The company has purchased land for the same through another subsidiary for around Rs.6 crore. The capex had been deferred due to delay in obtaining regulatory clearances.
Promoters of MAL have 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 rating factors in this enunciation centrally in the analysis.

Key Rating Weaknesses
Dependence of ferro alloy industry on cyclical steel industry
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 ton of stainless steel manufactured and around 0.7% manganese is required for every ton of steel. The above is met through alloys of chromium and manganese. Thus there exists a strong co-relation between the volume growth of the ferro alloy industry and the steel industry.

Susceptibility of profitability to volatile raw material and finished goods prices
Manganese ore, Coal and Coke are the major raw materials required which forms about 58% of total cost of sales in FY20 (57% in FY19). Manganese ore is mostly imported from South Africa and Gabon (~65%), Australia (30%) and Brazil (5%) by MAL. For coke, it imports for its Visakhapatnam plant and purchases from Dhanbad and Guwahati for its Kalyaneshwari and Meghalaya plants respectively. The price of manganese ore and coke is highly volatile and the realization of the ferro alloys is also governed by the performance of the end user steel industry. Thus MAL's profitability is highly susceptible to fluctuation in prices of the raw materials and the finished goods.

Lack of backward integration
Raw material consumption and power are the major cost components for MAL, accounting for 58% and 20% of the cost of sales respectively in FY20. MAL doesn't have backward integration for its major raw material exposing it to availability and price risk. It purchases power from Meghalaya Power Distribution Corporation Limited for Ri-Bhoi unit, Damaodar Valley Corporation for its plant in Kalyaneshwari and from Andhra Pradesh Eastern Power Distribution Company Ltd (APEPDCL) for its Vizag unit. The average power rate stood at Rs.4.7 per unit.
As articulated by the management, MAL does not have backward integration as the high cost of investments involved in having suitable manganese ore mines and captive power plant would have had negative impact on the overall return on capital employed.

Working capital intensive nature of operation
MAL's operation is working capital intensive in nature as it has to offer credit period for around 2 months to SAIL and around a month to other customers due to intense competition in the industry. 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 83 days in FY20 (62 days in FY19).

Foreign exchange fluctuation risk
MAL imports around 90% of its raw-material requirement (mainly manganese ore). MAL also has a strong presence in the export market. MAL hedge its net foreign currency exposure and enters into forward contracts. Hence, MAL is exposed to low foreign currency fluctuation risk.

Industry Outlook
The global ferroalloys market size was estimated at USD 44.9 billion in 2019 and is expected to grow a compound annual growth rate (CAGR) of 5.5% from 2020 to 2027. The increasing steel production around the globe is the prominent factor driving market growth. The emergence of the COVID-19 pandemic is likely to significantly affect the steel output globally (especially in China who produced approximately 53% of the global crude steel in 2019) which, in turn, is expected to hamper the ferroalloys market in 2020.
Recovery in domestic steel demand has been slow due to migration of labour, supply-chain disruptions, prevailing lockdown in many cities etc. CARE expects domestic steel demand to recover only post monsoon led by improvement in infrastructure activities and expectation of increase in automobiles production. Demand from construction sector is expected to take longer to recover. However, higher exports, lower raw materials prices and better availability of domestic coal is expected to provide much needed relief to steel players grappling with destruction in domestic demand and low realizations.

Liquidity: Strong
Liquidity is marked by strong accruals of Rs. 230.45 crore as against negligible repayment obligations of Rs.0.04 crore on account of lease liabilities and free liquid investments to the tune of Rs.636 Crore as on March 31, 2020. Its unutilized bank lines to the extent of 97% in last 12 months ended July'2020 also supports liquidity. The company has Rs.726.98 crore of free cash and liquid investments as on July 31, 2020 mainly invested in liquid mutual funds.
The company has not availed any deferment of interest on its CC facilities as per COVID relief measure announced by RBI.

Analytical Approach: Standalone. All the subsidiaries are in the initial stage of operation and more than 99% of turnover and profits at a consolidated level are attributable to the standalone operations of MAL.

Applicable Criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology-Steel Industry
Liquidity Analysis of Non-Financial Sector Entities
Complexity Level of Rated Instruments

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 (1,20,000 MTPA) at Visakhapatnam, Andhra Pradesh. The Meghalaya unit has a captive power plant of 15 MW which is not operational since Jan'19. 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1987.93	1830.88
PBILDT	324.72	234.92
PAT	255.28	221.90
Overall gearing (times)	0.21	0.05
Interest coverage (times)	39.51	39.88

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

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	-	-	-	35.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	15.00	CARE AA; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (28-Sep-18)	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A1+	-	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (28-Sep-18)	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (16-Aug-19)	1)CARE AA; Stable (28-Sep-18)	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)
4.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)Withdrawn (16-Aug-19)	1)CARE AA; Stable (28-Sep-18)	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	15.00	CARE AA; Stable / CARE A1+	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

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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