Maithan Alloys Limited

November 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**130.99 (reduced from 174.76)**	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	**430.00 (enhanced from 315.00)**	**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 ratings assigned to the bank facilities of Maithan Alloys Limited (MAL) 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 also take into account the improvement in financial performance in FY17 (refers to the period April 01 to March 31) and Q1FY18, conservative capital structure and comfortable liquidity position.

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 Andhta Pradesh, providing access to both domestic and international market at competitive price, due to optimization of freight costs.

Established & reputed clientele alongwith 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 95% in Q1FY18 owing to the rise in global steel demand.

Improvement in financial performance in FY17 and Q1FY18

Total operating income grew by 16% y-o-y in FY17 due to higher quantum sales of Silico Manganese coupled with higher sales realisation. PBILDT margin improved substantially in FY17 due to decline in low-margin trading sales, increase in average sales realization of ferro alloy and lower power cost due to power subsidy received for Vishakapatnam Plant. While the operating margin is expected to moderate in FY18 due to the uncertainty of receiving power subsidy, however, the same shall continue to be at healthy levels.

Performance of Q1FY18 witnessed significant improvement vis-à-vis Q1FY17 due to higher volume sales along with better sales realization. In Q1FY18, MAL earned PAT of Rs.59.19 crore on the total operating income of Rs.446.47 crore (PAT of Rs.18.96 crore on total operating income of Rs.273.68 crore in Q1FY17).

Comfortable capital structure and liquidity profile

MAL's overall gearing ratio improved from 0.67x as on Mar 31, 2016 to 0.21x as on Mar 31, 2017 owing to gradual repayment of ECB loan, lower bank borrowings and accretion of healthy profit to reserves. Total debt/GCA improved significantly from 2.23x as on March 31, 2016 to 0.54x as on March 31, 2017. MAL maintains healthy cash and bank balance (including liquid investments), and low utilization of available fund based limits provide comfort from liquidity perspective.

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

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

MAL's operation is working capital intensive in nature as it has to offer credit period for around 2-3 months to its creditors due to intense competition in the industry and has a policy to maintain inventory for about 2 month.

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]
[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

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.*

Analyst Contact
Name: Ms. Richa Bagaria
Tel: 033-4018 1653
Cell: +91 99034 70650

Email: richa.jain@careratings.com

For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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 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 A+; Stable
Fund-based - LT-ECB	-	-	Mar-2019	40.99	CARE A+; 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+ (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+ (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 A+; Stable	-	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 A+; Stable	-	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: +91-172-490-4000/01
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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