Maithan Alloys Ltd

August 16, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings1	Rating Action
Long-term Bank Facilities	90.00 (reduced from 99.02)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	450.00 (enhanced from 430.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**540.00 (Rupees five hundred and forty crore only)**		

Details of instruments/facilities in Annexure-1

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 of the company in the ferro alloy industry, strategic location of the manufacturing facilities, established and reputed clientele of MAL with strong presence in the exports market, high capacity utilisation, comfortable financial risk profile, albeit moderation in operating margins in FY19 (refers to period April 1 to March 31) & Q1FY20, comfortable capital structure & debt coverage indicators and strong liquidity profile.

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. Further the management has also articulated that company's manufacturing PBILDT margin is expected to remain above 12% 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. The ratings factor in this enunciation centrally in the analysis.

The ratings, however, factor in the susceptibility of profitability to volatile input and finished goods prices, lack of backward integration, foreign exchange fluctuation risk and dependence of ferro alloy industry on the cyclical steel industry.

The ability of the company to maintain healthy liquidity & profitability margin and adherence to the leverage policy as mentioned above are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established presence in the ferro alloy industry

The promoter Chairman and Managing Director, Mr. S. C. Agarwalla has 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.

Strategic location of manufacturing facilities

MAL's manufacturing facilities are present in Kalyaneshwari (West Bengal), Visakhapatnam (Andhra Pradesh) and Ri-Bhoi (Meghalaya). 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 optimized freight and inventory holding costs, leading to competitive pricing.

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

Around 80% of MAL's domestic market sales is to Steel Authority India Ltd (CARE AA-/Stable/ CARE A1+). Although concentrated in domestic market, counter party risk is mitigated to a large extent due to SAIL being a government entity.

MAL derives more than 50% of the total operating income from exports. In FY19, MAL's share of the bulk ferro alloys exports from India (excluding ferro chrome exports from India) was around 13%. 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

The capacity utilization continued to be optimum at 96% in FY19 with production of 225,398 mt of ferro alloys as against 225,598 mt in FY18.

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

Comfortable financial risk profile, albeit moderation in operating margins
The increase in Total Operating Income (TOI) in FY19 by 5.16% was driven by increase in average realizations of ferro alloys while the sales volume witnessed marginal decline.
The PBILDT margin of the company, although comfortable, deteriorated from 19.56% in FY18 to 15.09% in FY19. The company commanded better spread in FY18 due to healthy demand from the end user iron & steel industry vis-à-vis supply of manganese alloys. In FY19, the spread of manganese alloys (~93% of manufacturing sales) were negatively impacted due to increase in price of key raw materials- manganese ore and coke. With negligible term debt and low utilization of fund based limits, the interest cost continued to be low and accordingly interest coverage continued to be comfortable at more than 35x in FY19.
In Q1FY20, the TOI increased by 6.7% y-o-y to Rs.485.80 crore. Although the volumes increased, slowdown in the steel sector added competitive pressure on margins. The PBILDT margin deteriorated from 18.44% in Q1FY19 to 14.09% in Q1FY20. The management of MAL has articulated that it expects company's manufacturing PBILDT margin to remain above 12% at all times.

Comfortable capital structure & debt coverage indicators
MAL's overall gearing continued to be comfortable at 0.21x as on March 31, 2019, with debt mainly marked by LC backed acceptances. The total debt/Gross Cash Accruals (GCA) also continued to comfortable at 0.84x as on March 31, 2019. The company has proposed organic and inorganic expansions of around Rs.600 crore out of internal accruals and existing funds in the medium term. Of the same, around Rs.364 crore is planned. The management has maintained that it would not be undertaking two projects at the same time. Under the organic route, the company had announced Greenfield project of Rs.275 crore towards the ferro chrome/ ferro manganese unit of 66MVA (4 x 16.5 MVA; 1.2 lakh mtpa) in Bankura, West Bengal. Other than purchase of part of land, no other expenditure has been taken for the project, pending regulatory clearances. Under than the inorganic route, MAL has emerged as the H1 bidder for the purchase of a sick unit under IBC. The expected cost of the project is around Rs 90-100 crore. As MAL does not have plans to avail debt for capex, the gearing is expected to be comfortable going forward.
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 rating factors in this enunciation centrally in the analysis.

Liquidity: Strong
The liquidity posit;ion of the company continued to be very comfortable. Average working capital utilization (fund-based) was very low with average maximum utilization of less than 4% in the last 12 months ended May 2019. As on March 31, 2019, MAL had free cash, bank balance and liquid investments of Rs.643.22 crore which remained almost at similar levels on June.30, 2019. The company had GCA of Rs.274 crore in FY19. Having repaid its term loan in FY19, the company has no projected term debt repayment obligation.

Key Rating Weaknesses
Dependence of ferro alloy industry on cyclical steel industry and susceptibility of profitability to the volatility in prices of raw materials and finished goods
The bulk ferro alloy market segment is categorized 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.
Manganese ore and Coke are the major raw materials required in the manganese based alloy industry. In addition, to the prices of the raw material, the realization of the ferro alloys is also governed by the performance of the end user steel industry. The same was evident in FY19 performance wherein though the prices of key raw materials increased, but it couldn't be fully passed on in the ferro alloys prices. 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 57% and 22% of the cost of sales respectively in FY19. MAL doesn't have backward integration for its major raw material exposing it to availability and price risk. MAL has a captive power plant (15 MW) in only one of its units i.e. in Meghalaya having 11% of the production capacity where it produces ferro silicon. MAL sources power from Damodar Valley Corporation for its unit in West Bengal and from Andhra Pradesh Eastern Power Distribution Company Ltd for its Andhra Pradesh 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.

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 continued to be a net exporter in FY19 have exports of Rs.1059 crore vis-à-vis imports of Rs.708.86 crore in FY19. Depending upon the market conditions, MAL hedge its foreign currency exposure and enters into forward contracts. Hence MAL is exposed to foreign currency fluctuation risk.

Analytical approach*:* Standalone Approach.

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

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. 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)	FY18 (A)	FY19 (A)
Total operating income	1862.73	1958.76
PBILDT	364.29	295.54
PAT	291.75	255.26
Overall gearing (times)	0.19	0.21
Interest coverage (times)	46.58	35.96

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

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	-	-	-	50.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE AA; Stable
Fund-based - LT-External Commercial Borrowings	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (28-Sep-18)	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A1+	-	1)CARE A1+ (28-Sep-18)	1)CARE A1+ (16-Feb-18) 2)CARE A1+ (03-Nov-17)	1)CARE A1+ (13-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (28-Sep-18)	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)
4.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE AA; Stable (28-Sep-18)	1)CARE AA-; Stable (16-Feb-18) 2)CARE A+; Stable (03-Nov-17)	1)CARE A+ (13-Oct-16)

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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