Nilachal Carbo Metalicks Private Limited

February 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	6.62	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Long term Bank Facilities	1.00 (reduced from Rs.6.00 crore)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE D (Single D)
Short-term Bank Facilities	9.43 (enhanced from Rs.9.00 crore)	CARE A4; (A Four)	Revised from CARE D (Single D)
Total	**17.05 (Rs. Seventeen Crore and Five lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Nilachal Carbo Metalicks Private Limited (NCMPL) takes into account the default free track record for more than four months from October, 2019 onwards.

The ratings assigned to the bank facilities of NCMPL continue to remain constrained by its small scale of operations, weak capital structure and debt protection metrics albeit improvement witnessed in H1FY20, volatility in the prices of raw material and finished goods, customer concentration risk and cyclical nature of steel industry. However, the ratings continue to derive strength from its experienced promoters, strategic location of the plant and stable operating margin in FY19 (refers to the period April 1 to March 31) and improvement witnessed in H1FY20.

Rating Sensitivities

Negative Factors

- Decline in scale of operations and moderation in PBILDT margin below 5%.
- Deterioration in overall gearing and TD/GCA above 2x and 5x respectively.

Positive Factors

- Improvement in scale of operations and improvement in PBILDT margin at more than 10%.
- Overall gearing below 1x and Total debt to gross cash accruals reducing below 3x.
- Sustenance of operating cycle at the current level.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation

With an installed capacity of 72,000 tpa, NCMPL is relatively a small player. With its small size, the company does not get benefit from economies of scale and during financial stress it may impact the business as compared to large players in same industry. The capacity utilization (CU) level has remained stable at 69% in FY19 (69% in FY18). The CU level has moderated to 51% in 8MFY20 due to the disruption in operation caused by cyclone in the month of April-May'19.

Weak capital structure and debt protection metrics albeit improvement witnessed in H1FY20

The net-worth of the company stood negative as on Mar 31, 2019. TD/GCA was weak and stood at 9.62x in FY19 as against 11.31x in FY18. Due to high losses in FY16, the company's net worth was eroded and it was unable to service the debt obligation on time and the account was classified NPA by SBI in March 2016. In March 2018, the company had done an One time settlement (OTS) with SBI by virtue of which its debt of Rs.65 crore was settled for Rs.26.5 crore which was paid off by September'2019. Hence the debt to an extent of Rs.40.05 crore has been written back and net worth became positive to Rs.12.20 crore as on September 30, 2019 as against negative net worth of Rs.29.68 as on March 31, 2019. As a result, the overall gearing stood at 1.47x as on September 30, 2019. Total debt/GCA also improved from 9.62x as on March 31, 2019 to

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

3.05x as on Sep 30, 2019. However, if we exclude the debt write-off on OTS from net-worth, then the net-worth of the company stood negative as on Sep 30, 2019.

Volatility in the prices of raw material and finished goods

Cost of coking coal is the major raw material cost for NCMPL (constituting ~93% of cost of sales in FY19). Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw material prices. Import prices of Australian coking coal exhibited monthly volatility of 10.77% over the last 12 months ending November 30, 2019. Given that any sharp decline in raw-material prices needs to be immediately passed on to consumers whereas any sharp increase in prices are passed to the consumers with a certain time lag, the profitability of the company is susceptible to fluctuation in raw-material prices.

Customer concentration risk

Majority of the revenue for the company is derived from few players based out of ferro alloy and iron ore pellet producers. In FY19, NCMPL derived around 89% (87% in FY18) of its revenue from top 5 customers which indicates customer concentration risk. However, long standing relationship with these clients for over the years mitigates the risk to some extent.

Cyclical nature of steel industry

NCMPL is in the business of manufacturing of LAM coke which is required in the manufacturing of steel and ferro alloy industry so there is a high degree of dependence on the fortunes of the steel industry, which is cyclical in nature.

Key Rating Strengths

Experienced Promoters

Nilachal Carbo Metalicks Private Limited (NCMPL) commenced its operation in 2003 under Dr. B D Chatterjee along with Mr. Bibhudatta Panda. Subsequently the entire stake was bought by Mr. Panda in 2012. Mr. Panda started his career as a trader of imported minerals and coal before venturing into LAM coke manufacturing and having 27 years of overall experience. The day to day operation of the company is managed by Mr. Panda with the help of Mr. Y.N Pandey, Ex General Manager SAIL.

Strategic location of the plant

NCMPL procures coking coal from local suppliers who in turn imports coking coal from Australia and its manufacturing unit is located at Baramana (Dist. Jajpur) Odisha which is ~100 km away from Paradip port which facilitates NCMPL to readily transport coal to its plant location, thereby enabling it to save on its inward freight cost. Moreover, the manufacturing facility is also strategically located at a distance of 50-60 kms from various Ferro Alloy plants and Iron Ore Pellet Producers which require metallurgical coke as raw material, thereby enabling it to save on its freight outward cost.

Stable operating margin in FY19 and improvement witnessed in H1FY20

NCMPL’s total operating income increased y-o-y by 22% to Rs.141.80 crore in FY19 on the back of increase in sales realisation (+14%) and sales quantity (+7%). However, PBILDT margin remained stable at 6.95% in FY19 (6.89% in FY18). Interest coverage ratio improved and stood at 2.29x in FY19 (2.00x in FY18) on the back of increase in PBILDT level. The company reported gross cash accruals of Rs.6.98 crore as against debt repayment obligation of Rs.0.37 crore in FY19.

In H1FY20, the company reported PBT of Rs.1.83 crore on total operating income of Rs.62.07 crore. PBILDT margin improved to 8.68% in view of introduction of automation in the material handling section (both LAMC and coking coal) and production process.

Industry Outlook

Finished steel production is likely to grow by a modest pace of 4%-5% during the year FY20 on a y-o-y basis. On the consumption side, India’s steel consumption is expected to grow by 5%-6% on the back of government’s expenditure towards infrastructure and construction. With the same government coming to power, the focus will continue to remain on infrastructure development in the country. Since the final product of NCMPL is LAM coke which is used as a fuel in various iron/steel foundries for the production of steel and ferro alloy, hence the profitability of the company is dependent on the steel industry.

Liquidity: Stretched

Liquidity is marked by gross cash accruals of Rs.6.98 crore in FY19 as against debt repayment obligations of Rs.0.37 crore and free cash balance of Rs.0.14 crore as on Mar 31, 2019. Its capex requirements are nil. Its non-fund based month end utilisation for the last 12 months ended Dec'19 was 100%. The company is also utilizing its non-fund based facilities beyond the sanctioned LC limit of Rs.8.75 crore based on 100% margin. The working capital cycle of the company was comfortable and stood negative mainly on the back of usage of LC (procurement of coking coal) of usance period of 30-90 days. NCMPL sells its finished product to its customers on 100% advance basis. The average inventory period was 11 days in FY19 (18 days in FY18).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' 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

Nilachal Carbo Metalicks Private Limited (NCMPL) was incorporated in 2003 by Dr. B D Chatterjee along with Mr. Bibhudatta Panda. NCMPL produces and sells sized coke – nut coke and coke fines with the present installed capacity of 72,000 tpa at Baramana (Dist. Jajpur) Odisha. The day to day operations of the company are looked after by Mr. Panda with the support of Mr. Y. N. Pandey, Ex General Manager SAIL.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	115.96	141.80
PBILDT	7.99	9.85
PAT	4.06	4.97
Overall gearing (times)	-ve	-ve
Interest coverage (times)	2.00	2.29

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 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	-	-	-	9.43	CARE A4
Fund-based - LT-Cash Credit	-	-	-	1.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	November 30, 2022	6.62	CARE B+; 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 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	9.43	CARE A4	-	1)CARE D (12-Sep-18) 2)CARE A4 (01-Aug-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	1.00	CARE B+; Stable	-	1)CARE D (12-Sep-18) 2)CARE B; Stable (01-Aug-18)	-	-
3.	Fund-based - LT-Term Loan	LT	6.62	CARE B+; Stable	-	-	-	-

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ishan Marda
Group Head Contact no.: 033-4018 1604
Group Head Email ID: ishan.marda@careratings.com

Business Development Contact
Name: Lalit Sikaria
Contact no. : 033–4018 1607
Email ID : lalit.sikaria@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.

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