Nilachal Carbo Metalicks Private Limited (Revised)

September 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	9.64 (Enhanced from 7.62)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	8.75 (Reduced from 9.43)	CARE A4 (A Four)	Reaffirmed
Total Facilities	**18.39 (Rs. Eighteen Crore and Thirty-Nine Lakhs Only)**		

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

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Nilachal Carbo Metalicks Private Limited (NCMPL) continue to remain constrained by its small scale of operations, volatility in the prices of raw material and finished goods, weak capital structure, 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, improvement in debt coverage indicators and moderate financial performance in FY20 (refers to the period April 1 to March 31) albeit subdued performance in 4MFY21.

Rating Sensitivities

Negative Factors

- Decline in scale of operations and moderation in PBILDT margin below 5%
- Deterioration in overall gearing and TD/GCA above 1.5x and 5x respectively

Positive Factors

- Improvement in scale of operations and improvement in PBILDT margin at more than 12%
- Overall gearing below 1x and Total debt to gross cash accruals reducing below 2x
- 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 75,000 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 deteriorated and stood at 57% in FY20 (68% in FY19) due to disruption in operation caused by cyclone in the month of April-May'19 and the impact of COVID-19 pandemic towards the fag end of the year. The CU level further declined to 42% in 4MFY21 due to lockdown imposed amid COVID-19 pandemic leading to temporary suspension of inbound raw material movement from Paradip port to the manufacturing plant.

Volatility in the prices of raw material and finished goods

Coking coal is the major raw material cost for NCMPL (constituting ~53% of cost of sales in FY20). 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 ~12% over the last 12 months ending June 30, 2020. 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.

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

Weak capital structure

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 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.15.54 crore as on March 31, 2020 as against negative net worth as on March 31, 2019. The overall gearing stood at 1.22x as on March 31, 2020. However, if we exclude the debt write-off on OTS from net-worth, then the net-worth of the company stood negative as on Mar 31, 2020.

Customer concentration risk

Majority of the revenue for the company is derived from few players who are ferro alloy producers. In FY20 & 4MFY21, NCMPL derived around 85% and 90% (85% in FY19) respectively of its revenue from top 4 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

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 60-130 kms from various Ferro Alloy plants which require metallurgical coke as raw material, thereby enabling it to save on its freight outward cost.

Improvement in debt coverage indicators

Interest coverage stood stable at 2.39x in FY20 (2.28x in FY19) in view of increase in PBILDT. Total Debt/GCA improved and stood at 2.73x as on Mar 31, 2020 as against 9.62x as on Mar 31, 2019.

Moderate financial performance in FY20 albeit subdued performance in 4MFY21

NCMPL's total operating income declined y-o-y by 20% to Rs.113.84 crore in FY20 on the back of decline in overall sales realisation. However, PBILDT margin improved from 6.95% in FY19 to 9.88% in FY20 on account of increase in gross margin and also on the back of introduction of automation in the material handling section and production process. The company reported GCA of Rs.6.96 crore vis-à-vis debt repayment obligation of 5.12 crore in FY20.

In 4MFY21, NCMPL reported loss of Rs.0.65 crore on total operating income of Rs.25.48 crore.

Industry Outlook

The finished product of NCMPL is Low Ash Metallurgical (LAM) coke which is majorly used as a fuel in ferro alloy industry as well as in iron & steel industry. CARE expects coal demand to remain subdued in the coming months due to high inventory and slower than anticipated pick-up in commercial and industrial activities. Coal imports are also expected to be lower in FY21 due to ample availability in the domestic market. Besides, Coal India Ltd (CIL) has been mandated by the government to replace at least 100 million tonnes of imports with domestically produced coal in FY21. Coking coal imports are also expected to come down amid expectation of fall in crude steel production in FY21.

Liquidity: Stretched
Liquidity is marked by gross cash accruals of Rs.6.96 crore vis-à-vis debt repayment obligations of Rs.5.12 crore and free cash balance of Rs.0.21 crore as on Mar 31, 2020. The fund based bank limits and non-fund based limits are utilized on an average to the extent of ~85% and ~94% in last 6 months and 12 months ended August 31, 2020 and July 31, 2020 respectively supported by above unity current ratio. The company has availed COVID emergency loan of Rs.2.26 crore from Allahabad Bank to meet the temporary liquidity mismatch arising out of impact of COVID-19 pandemic. The company has not availed any deferment of interest on its fund based limits. However, NCMPL has availed moratorium w.r.t. its term loan installments for the month of July 2020 and August 2020 which is expected to be paid in September 2020 and October 2020.
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 16 days in FY20 (11 days in FY19).

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]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for manufacturing companies]
[Complexity Level of Rated Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]

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 (LAMC) and coke fines with the present installed capacity of 75,000 MTPA 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)	FY19 (A)	FY20 (A)
Total operating income	141.80	113.84
PBILDT	9.85	11.25
PAT	4.97	5.36
Overall gearing (times)	NM	1.22
Adjusted Overall gearing (times)	NM	NM
Interest coverage (times)	2.28	2.39

A: Audited; NM: Not Meaningful

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	-	-	-	8.75	CARE A4
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	November 30, 2022	5.64	CARE B+; Stable

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook

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	8.75	CARE A4	-	1)CARE A4 (10-Feb-20)	1)CARE D (12-Sep-18) 2)CARE A4 (01-Aug-18)	-
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE B+; Stable	-	1)CARE B+; Stable (10-Feb-20)	1)CARE D (12-Sep-18) 2)CARE B; Stable (01-Aug-18)	-
3.	Fund-based - LT-Term Loan	LT	5.64	CARE B+; Stable	-	1)CARE B+; Stable (10-Feb-20)	-	-

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.	Fund-based - LT-Term Loan	Simple
3.	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.*

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

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