August 21, 2023

Premier Alloys & Chemicals Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Limits	28.50	34.00	[ICRA]BBB+ (Stable); reaffirmed
Unallocated Limits	5.50	-	-
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Premier Alloys & Chemicals Private Limited's (PACPL) established presence in the noble ferro alloys industry being among the top industry players with a healthy market share and established relationship with reputed clients as well as suppliers. PACPL is one of the largest producers of ferro-vanadium (FeV) and ferro-molybdenum (FeMo) and its client base includes reputed players such as the Steel Authority of India Limited (SAIL), Tata Steel Limited, Jindal Steel & Power Limited (JSPL) and JSW Steel Limited. PACPL's competitive cost of production vis-à-vis its competitors, aided by the company's ability to process inferior grade input materials, supports its profitability. Notwithstanding the periods of industry-wide stress during past commodity downcycles, PACPL's cost leadership in the domestic noble-ferro alloy segment, along with its ability to manufacture products with finer specifications, has helped it report net profits across business cycles. PACPL's capital structure and coverage indicators remained comfortable with a gearing of 0.2 times and an interest coverage of 40 times in FY2023. Given the limited growth plans, ICRA expects the company's capitalisation and debt protection metrics to remain at comfortable levels.

ICRA notes that in FY2023, PAPCL's revenues rose significantly to Rs. 443.6 crore from Rs. 368.6 crore in FY2022 owing to a sharp uptick in realisations, especially for FeMo during the fiscal. However, the profitability witnessed a moderation in FY2023 with the operating margin declining to 7%, a 300-bps decline on a sequential basis. This was primarily due to elevated input prices, which more than offset the benefits accrued from the improvement in realisation.

The company's revenues have remained susceptible to the cyclicality associated with the steel industry as it derives most of its revenues from the steel sector. The rating also considers the exposure of PACPL's margins to fluctuations in foreign exchange rates, and the increased import dependence and supplier concentration for sourcing key raw materials, which exposes the company to the risk of potential delays in their timely availability. However, such risks are partially mitigated by its established relationships with suppliers, as well as the company's recent initiatives to diversify the supplier base from newer geographies in South East Asia and Latin America. ICRA notes that the low duty differential between prices of imported raw materials with finished goods, and free trade agreements (FTAs) with key producer countries resulted in pricing parity between imported and domestic products, which results in import substitution risk, exerting pressure on the overall profitability.

The Stable outlook on PAPCL's rating reflects ICRA's opinion that PACPL's credit profile will continue to benefit from its cost-efficient operations and prudent growth plans, which is expected to result in debt metrics remaining at healthy levels.

Key rating drivers and their description

Credit strengths

Established presence in noble ferro alloys industry – PACPL has a long track record of over 40 years in the noble ferro alloys industry, resulting in established relationships with customers and suppliers. It is one of the largest manufacturers of FeV and FeMo in India with a sizable market share.

Reputed customer base – PACPL is one of the largest producers of FeV and FeMo and its client base includes reputed players such as SAIL, Tata Steel, JSPL, JSW Steel, etc. Although the customer concentration remains high, the company has been associated with these clients for a long period, resulting in repeat orders and mitigating client concentration risks to an extent. Also, the established client profile mitigates the counterparty credit risks as well.

Ability to report net profits across business cycles – The company is among the few domestic players which reported net profit across business cycles, including periods of severe downturns such as the post-Lehman global financial crisis of FY2009 and the metals meltdown of FY2016. Further, ICRA notes the higher realisations achieved by the company on account of being able to manufacture products with tighter specification, which coupled with the competitive cost of production, supports the company's profitability.

Healthy financial profile with strong capital structure and coverage indicators – The company's capital structure remained comfortable with a gearing of 0.2 times as on March 31, 2023, unchanged from the level recorded on March 31, 2022. PACPL's coverage indicators were strong in FY2023 with an interest coverage of 40.3 times and TOL/TNW of 0.4 times against 37.4 times at 0.6 times, respectively in FY2022. ICRA expects the credit indicators to remain comfortable over the medium term, supported by low debt levels and modest profitability.

Credit challenges

Susceptibility of revenues to cyclicality of end-user steel industry – PACPL's products find application in special steels, chemical industry, super alloys / public aerospace and batteries in the automobile segment. The company's operating income has remained vulnerable to cyclicality in the steel industry. The company's revenues significantly improved in FY2023 and stood at Rs. 443.6 crore against Rs. 368.6 crore in FY2022 due to an improvement in realisations for its products, especially FeMo, as the overall sales volumes remained flat during the fiscal. However, with the correction in steel prices witnessed in the early part of FY2024, notwithstanding an expectation of volume growth in the current fiscal, the company's turnover is expected to marginally reduce in the near term.

Import substitution risk – Taking into consideration the non-availability of raw materials (ore reserves) in the country, the company is heavily reliant on imports. Quite a few end-users prefer to import the finished goods directly as the differential prices between the imported finished goods and domestic goods is low. This increases the import substitution risk, especially from FTA countries like South Korea.

Exposed to foreign exchange fluctuation – The company is exposed to foreign currency fluctuations as sizeable raw material requirement is imported from suppliers located outside India, which has a long lead time for delivery. However, the company's long relationship with customers helps it renegotiate quoted prices, which partly compensates for any adverse movement in foreign currency fluctuations and a consequent rise in input costs.

Higher supplier concentration – The presence of a few raw material suppliers in the global market coupled with limited availability of ore reserves resulted in increased reliance on a few suppliers. However, established relationships of PACPL with its suppliers partly mitigates this risk. ICRA also notes that the company has taken some initiatives to diversify the supplier base from newer geographies in South East Asia and Latin America, which augur well for the business risk profile.

Liquidity position: Adequate

Healthy fund flow from operations, as well as moderate working capital and capex requirements of the business resulted in adequate liquidity position for the company. The cash credit facilities were enhanced from Rs. 21 crore to Rs. 33 crore in April 2023, which have increased the liquidity headroom. The average utilisation of cash credit facilities during June 2022 to May 2023 stood at a comfortable 52% of the sanctioned limits. Moreover, with no scheduled debt repayment obligations, and expectations of positive cash flow from operations in FY2024, the liquidity position is expected to remain at comfortable level in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates significant growth in scale of operations and records healthy profitability and accruals on consistent basis. Significant strengthening of the net worth and liquidity position on a sustained basis for PACPL can also lead to a positive rating action.

Negative factors – Negative pressure on the ratings could arise if lower accruals impact debt metrics or sizeable dividend payout impacts its liquidity position. Specific credit metrics that could lead to a rating downgrade include an interest coverage of below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Based in Hyderabad, PACPL was started as a proprietary concern in 1978 by Mr. G. S. Marda and was converted into a private limited company in 1988. It manufactures two noble ferro alloys, namely ferro vanadium (FeV) and ferro molybdenum (FeMo). In addition, the company sells the intermediate (chemical) products, that is, vanadium pentoxide (V_2O_5) and ammonium meta vanadate (NH_4VO_3). PACPL has an installed capacity of 2,646 metric tonnes per annum (MTPA), of which 1,134 MTPA is FeV capacity and 1,512 MTPA is FeMo capacity.

Key financial indicators

	FY2022	FY2023*
Operating income	368.6	443.6
PAT	25.7	22.3
OPBDIT/OI	10.1%	7.0%
PAT/OI	7.0%	5.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	0.3	0.4
Interest coverage (times)	37.4	40.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 21, 2023	May 23, 2022	-	Mar 04, 2021
1	Fund Based Limits	Long term	34.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2	Unallocated Limits	Long term	-	-	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund Based Limits**	NA	NA	NA	34.00	[ICRA]BBB+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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