May 23, 2022

Premier Alloys & Chemicals Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	16.00	28.50	[ICRA]BBB+ (Stable); reaffirmed
Untied Limits	18.00	5.50	[ICRA]BBB+ (Stable); reaffirmed
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Premier Alloys & Chemicals Private Limited's (PACPL/company) established presence in the noble ferro alloys industry with healthy market share leading to 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 Tata Steel Limited, the Jindal Group, and Steel Authority of India Limited. ICRA further notes significant improvement in revenues and profit in FY2020 and H1 FY2022 owing to a sharp uptick in realisations following the steel upcycle. Further, a competitive cost of production vis-à-vis its competitors, aided by the company's ability to process inferior grade input materials, supported its profitability. 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, notwithstanding periods of industry-wide stress in the past. ICRA notes that PACPL has been recently able to increase its FeV capacity by ~29% in January 2022, which makes its product profile richer through a greater share of high-margin products. PACPL's capital structure and coverage indicators remained comfortable with a gearing of 0.2 times and interest coverage of 35 times in FY2021. Given the limited growth plans, ICRA expects the company's capitalisation and debt protection metrics to remain at comfortable levels.

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 takes into account 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 delays in their timely availability. However, such risks are partially mitigated by its established relationships with suppliers. 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 has resulted in pricing parity between imported vs. domestic products, which results in import substitution risk, thereby exerting pressure on overall profitability.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA's opinion that PACPL's credit profile will continue to benefit from its established position in the noble ferro alloys industry, reputed customer base, and healthy debt metrics.

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 market share of about 20%.

Reputed customer base – PACPL is one of the largest producers of Fe-V and Fe-Mo and its client base includes reputed players such as Tata Steel, Jindal Group, Steel Authority of India Limited, 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 counterparty credit risks as well.

Ability to report net profits across business cycles – The company is among the few domestic players who 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 competitive cost of production, supports the company's profitability.

Healthy financial profile with strong capital structure and coverage indicator – The company's capital structure remains comfortable with a gearing of 0.2 times and 0.1 times as on March 31, 2021 and September 30, 2021. PACPL's coverage indicators were strong with interest coverage of 35 times and 45.5 times, TOL/TNW of 0.4 times and 0.6 times in FY2021 and H1 FY2022 respectively. 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 FY2022 and stood at Rs. 368 crore against Rs. 183.2 crore in FY2021 due to healthy steel demand growth. However, going forward, as the demand momentum from the steel industry wanes somewhat, 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. However, the company's long-standing relationship with customers helps it to renegotiate quoted prices, this partly compensates for any adverse movement in foreign currency fluctuations and a consequent rise in input costs.

Higher supplier concentration – The presence of few raw material suppliers in the global market coupled with limited availability ore reserves resulted in increased reliance on a few suppliers. However, the established relationship of PACPL with its suppliers partly mitigates this risk.

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. 16 crore to Rs. 22 crore in March 2021, which has increased the liquidity headroom. Consequently, the average utilisation of cash credit facilities during January 2021 to March 2022 stood at a comfortable 37% of the sanctioned limits. Moreover, the company had unencumbered cash balances of ~Rs. 4 crore as on April 30, 2022, which supports its liquidity position.

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, leading to strengthening of the net worth and liquidity position.

Negative factors – Negative pressure on the ratings could arise if lower accruals impact debt metrics or sizeable dividend pay-out 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 Rating Methodology for Ferrous Metals Entities
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 also sells the intermediate (chemical) products, i.e. vanadium pentoxide (V_2O_5) and ammonium meta vanadate (NH_4VO_3). PACPL has an installed capacity of 2,646 metric tonne per annum (MTPA), of which 1,134 MTPA is FeV capacity and 1,512 MTPA is FeMo capacity.

Key financial indicators

STPL (Standalone)	FY 2020 (Audited)	FY2021 (Audited)	6M FY2022 (Provisional)
Operating Income (Rs. crore)	208.1	183.2	172.6
PAT (Rs. crore)	2.7	8.1	11.3
OPBDIT/OI (%)	2.3%	6.7%	9.1%
PAT/OI (%)	1.3%	4.4%	6.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4	0.6
Total Debt/OPBDIT (times)	0.6	0.7	0.2
Interest Coverage (times)	11.2	35.0	45.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					23-May-2022	-	04-Mar-2021	11-Oct-2019
1	Fund Based Limits	Long Term	28.50	8.61	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Untied Limits	Long Term	5.50	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Untied Limits	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	28.50	[ICRA]BBB+ (Stable)
NA	Untied Limits	NA	NA	NA	5.50	[ICRA]BBB+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable		

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