October 28, 2022

Axora Resources Limited: [ICRA]BB+(Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	50.00	[ICRA]BB+(Stable); assigned
Short-term – Non-fund based – Letter of Credit	13.00	[ICRA]A4+; assigned
Long-term/Short-term – Unallocated	27.00	[ICRA]BB+(Stable)/[ICRA]A4+; assigned
Total	**90.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings favourably factor in the healthy growth in Axora Resources Limited's (ARPL) revenues to Rs. 256.8 crore in FY2022 from Rs. 119.2 crore in FY2021, driven by an increase in production of lead and commencement of tin production. While the total revenues till August 2022 stood at around Rs. 105.6 crore, the same is expected to significantly pick up in H2 FY2023. In FY2022 too, major production/sales were reported in H2 FY2022. Also, the dispatches of antimony have started recently, which will support the scale of operations, going forward. The ratings consider the extensive experience of its promoter in the non-ferrous metals industry as well as the diverse mix of metals manufactured, which includes lead, tin and antimony, among others. Although the entity derived ~ 60% of its revenues from a single customer in FY2022, its established relationships with key customers as reflected in repeat orders mitigates the risk to an extent. The rating draws comfort from ARPL's conservative capital structure resulting is low debt levels as reflected by a gearing of 0.6 times as on March 31, 2022.

The ratings, however, remained constrained by the stretched liquidity position as reflected by high utilisation of working capital limits over the last twelve months, with few instances of overutilisation in the month end balance of January 2022 and August 2022. However, the same was brought within limits over the next two-three days. The fund-based limits were also enhanced from Rs. 25 crore to Rs. 50 crore towards the end of August 2022. However, utilisation remains high at present at around 90% of the available limits. Going forward, the improvement in liquidity will remain the key rating monitorable. The ratings are also constrained by ARPL's moderate financial risk profile characterised by modest net cash accruals and operating margin of 5.6% for FY2022. Additionally, the scale of operation remained modest, despite improvement in FY2022. The rating also considers the vulnerability to high volatility in metal prices, which might adversely impact the company's margins. ICRA notes that there is one corporate guarantee of USD 3.5 million given for debt raised in Myanmar Smelting & Refining Company Limited. The term loan balance has reduced to USD 0.3 million as of September 2022 end and the remaining balance is expected to be paid off in H2 FY2023.

The Stable outlook reflects ICRA's opinion that ARPL will sustain the credit profile (commensurate with the rating category) owing to experience of the promoter and established relationships with customers.

Key rating drivers and their description

Credit strengths

Long experience of promoter in the business – ARPL is promoted by Mr. Vijendra Kedia, who has more than 25 years of experience in the non-ferrous metals industry. Long experience of the promoter has helped the company build strong relationships with its customers and suppliers. He has also established and is successfully running plants in Thailand and Myanmar, along with the plant in India.

Diversified sales mix of precious metals expected to result in improved operating profile – ARPL manufactures lead through recycling of drained acid battery and smelting of re-melted lead. It also manufactures metals such as tin, antimony, and other precious metals through the reduction process. At present, lead forms a dominant portion of the sales mix of manufactured metals. However, the company is working on to import semi-refined tin and antimony after carrying out smelting work at its related concern named Myanmar Smelting and Refining Company Limited, post which the proportion of other precious metals (such as tin and antimony) is expected to increase in the product mix, resulting in further value addition.

Low debt levels resulted in conservative capital structure – ARPL's capital structure remains conservative with low debt levels. The debt protection metrics remained comfortable as reflected by an interest coverage of ~3.4 times in FY2022 (FY2021: 2 times). In FY2023, the capital structure is expected to remain comfortable with no large addition to external debt resulting in a comfortable debt coverage.

Credit challenges

Stretched liquidity – The company's working capital-intensive nature of operations results in a stretched liquidity position. The utilisation of working capital limits remained high over the last twelve months, with few instances of overutilisation in the month end balance of January 2022 and August 2022. However, the same was brought within limits over the next two-three days. The fund-based limits were enhanced from Rs. 25 crore to Rs. 50 crore towards the end of August 2022. However, utilisation still remains high at present at around 90% of the available limits. Going forward, the improvement in liquidity will remain the key rating monitorable.

Exposure of volatility in metal prices – ARPL's cash flow remain exposed to the volatility in global metal prices primarily lead, tin and antimony, which contributes to a major portion of its total revenues. The same could also adversely impact the company's margins.

Small scale of operations at present – Notwithstanding the increase in ARPL's scale of operations in FY2022, the same remained small on an absolute basis. With the commencement of tin operation in FY2022 and antimony in FY2023, the scale of operation is expected to improve. In addition, the high proportion of value-added products will support the margins.

High customer concentration risk; the same is expected to improve going forward with diversified sales profile – The customer concentration remains high with ~59% of the sales in FY2022 being made to Chloride Metals Limited rated at [ICRA] AA (Stable)/ [ICRA] A1+, a wholly-owned subsidiary of Exide Industries Limited rated at [ICRA] AAA (Stable)/ [ICRA] A1+. However, with the expansion of product portfolio and increase in scale of operations, the customer concentration is expected to improve going forward.

Liquidity position: Stretched

The company's liquidity profile is stretched with high utilisation of working capital limits for the period between April 2021 and August 2022. There were few instances of overutilisation over the last twelve months, though corrected in next two-three days. While its working capital lines were enhanced in August 2022, the utilisation remained high at 90% of the available bank lines.

Rating sensitivities

Positive factors – The ratings will be upgraded in case of a significant improvement in profitability and cash accruals, followed by an improvement in sales volume and/or realisation along with improvement in liquidity position

Negative factors – Pressure on the ratings could arise in case of significant deterioration in profitability and liquidity position of the company; any large debt funded capex or significant outflow to related parties would also be additional triggers for downward revision in ratings. Specific trigger for downgrade would be interest coverage below 2.5 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

About the company

Founded in 1994, Axora Resources Limited specialises in processing of lead, tin, antimony and other non-ferrous metals. It started its operations in FY2020 and has a manufacturing plant in Chittoor, Andhra Pradesh. The company is promoted by Mr. Vijendra Kedia, a commerce graduate having more than 25 years of experience in the non-ferrous metals Industry.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	119.2	256.8
PAT	0.6	5.1
OPBDIT/OI	5.5%	5.6%
PAT/OI	0.5%	2.0%
Total outside liabilities/Tangible net worth (times)	1.1	1.1
Total debt/OPBDIT (times)	4.0	2.2
Interest coverage (times)	2.0	3.4

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

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 in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 28, 2022	-	-	-
1	**Fund-based - Cash credit**	Long term	50.00	-	**[ICRA]BB+(Stable)**	-	-	-
2	**Non-fund Based - Letter of Credit**	Short term	13.00	-	**[ICRA]A4+**	-	-	-
3	**Unallocated**	Long term/ Short Term	27.00	-	**[ICRA]BB+(Stable)/ [ICRA]A4+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short-term Non-fund Based – Letter of Credit	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	50.00	[ICRA]BB+(Stable)
NA	**Letter of Credit**	NA	NA	NA	13.00	[ICRA]A4+
NA	**Unallocated**	NA	NA	NA	27.00	[ICRA]BB+(Stable)/[ICRA]A4+

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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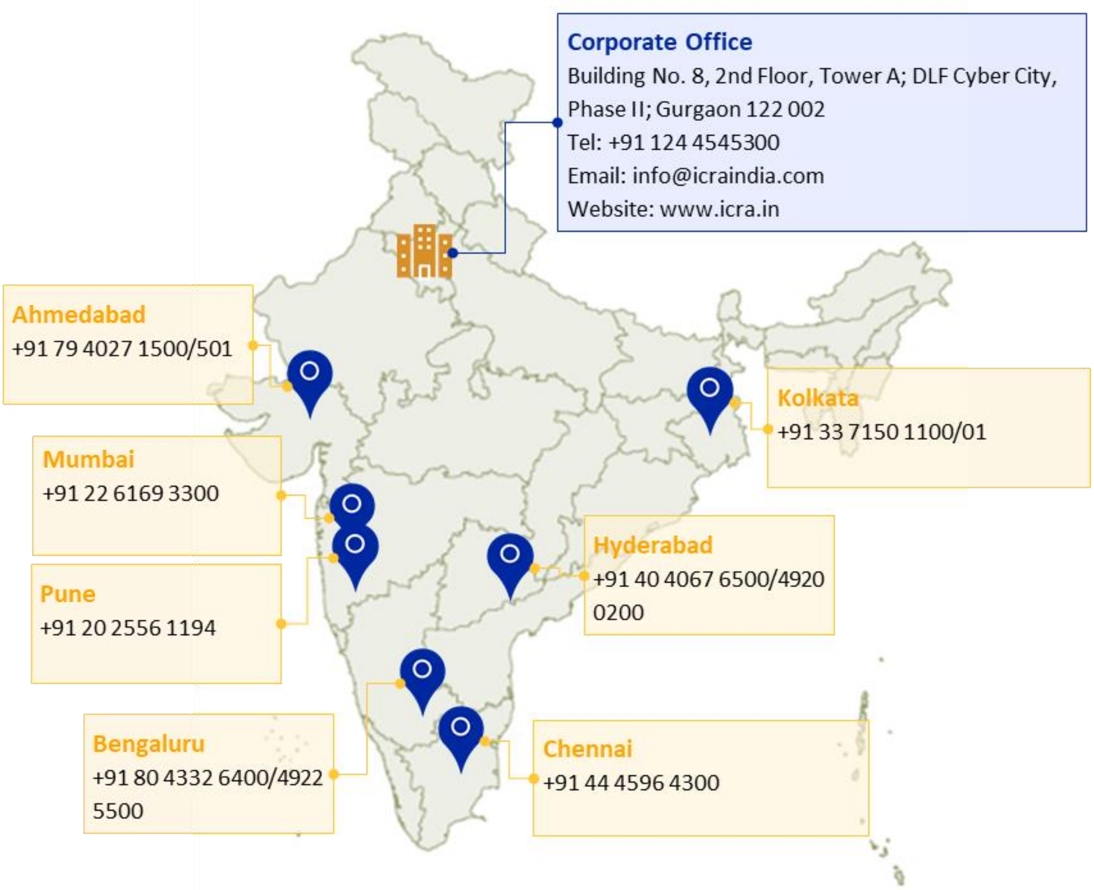

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