March 28, 2025

Neo Metaliks Limited: Ratings downgraded & outlook changed to Negative; assigned for enhanced amount

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term - Fund-based limits	78.50	78.50	[ICRA]BBB+(Negative); downgraded from [ICRA]A- (Stable); change in outlook to Negative from Stable
Short term - Non-fund based facilities	151.00	160.00	[ICRA]A2; downgraded from [ICRA]A2+ and assigned for enhanced amount
Long term – Fund-based - Term loans	256.00	305.00	[ICRA]BBB+(Negative); downgraded from [ICRA]A- (Stable) and assigned for enhanced amount; change in outlook to Negative from Stable
Total	**485.50**	**543.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action considers the weaker-than-expected financial performance of Neo Metaliks Limited (NML) in the current fiscal, which is expected to result in net losses for the full year and a consequent deterioration of the credit metrics. While the broader steel industry has been reeling under margin pressure in the current fiscal, the impact on standalone pig iron players like NML has been greater with pig iron spreads dipping to multi-year lows in the current fiscal. While this performance can be partly attributed to the challenging demand conditions and the company's decision to continue operating its low-capacity old furnace, the Government's restrictions on coke imports in December 2024, a key input used to manufacture pig iron, also affected the financial metrics. The import restrictions on coke have driven up domestic coke prices, straining the margins of pig iron producers.

In its earlier assessment, ICRA had factored in the commissioning and gradual ramp-up of operations from the new furnace from H2 of FY2025. However, despite the project capex being completed and the trial runs done successfully, the challenging demand conditions prompted the company to defer the lighting up of the new, larger and operationally more efficient blast furnace, which could have lowered the production cost significantly compared to the old furnace. An adverse operating environment and deferment in the commissioning of the new furnace will continue to keep the operating profits weak in FY2025 compared to ICRA's earlier estimates, resulting in a deterioration of the credit metrics. The leverage indicator, reflected in the total debt/OPBDITA, is now expected to be around 35 times in FY2025 and 3.7 times in FY2026 against ICRA's earlier estimates of 3.8 times in FY2025 and 2.3 times in FY2026. The ratings also remain constrained by the company's exposure to the cyclicality inherent in the pig iron business as the margins fluctuate due to temporary mismatches in the prices of raw materials and pig iron, causing volatility in profitability and cash flows. The ratings also remain constrained by the commoditised nature of the product, which keeps the company's profitability under check.

The ratings, however, continue to positively factor in the experience of the promoters of over a decade in the pig iron (mainly steel grade) manufacturing business, which has helped the company establish a strong customer base over the years. The ratings also consider the financial flexibility enjoyed by NML from being a part of the Rupa Group. The Group has a strong market position in the knitwear segment with a pan-India presence through Rupa & Company Limited, flagship company of the Rupa Group. The ratings also consider the semi-integrated nature of operations, which strengthen the operating profile of the company. Over the years, NML has taken various cost improvement initiatives, such as setting up a 4.5-MW power plant in FY2010 which operates on gas generated from the mini blast furnace and commissioning a sinter plant in FY2012. In April 2021, the company had commissioned a pulverised coal injection (PCI) facility to partially replace the costlier coke with cheaper pulverised coal. The operationalisation and stabilisation of the PCI facility has led to significant cost savings for the company, given the cost differences between met coke and pulverised coal. Once the new larger furnace is operational, the capacity of which is almost double that of the existing mini blast furnace, the production costs are expected to come down substantially. This would increase the cost competitiveness of the company and cushion its profits during periods when pig iron prices remain less buoyant.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; financial flexibility from being a part of Rupa Group – NML benefits from the experience of its promoters in the pig iron manufacturing industry, spanning over a decade. The extensive experience of the promoters has helped the company establish a strong customer base over the years. ICRA also notes the company's established trade relationships with clients, which enabled it to get repeat business over the years. NML's status of being a part of the Rupa Group imparts it considerable financial flexibility. The Group has a strong market position in the economy, medium and premium segments of the innerwear market with a pan-India presence through Rupa & Company Limited, flagship company of the Rupa Group. In the past, the Group has supported NML through the infusion of funds. The sizeable investments made by NML have the potential to make its operations cost competitive over the medium to long term. Hence, ICRA expects the Group to support NML, if required, to help it tide itself over the near-term industry challenges.

Semi-integrated operations strengthen operating profile – Over the years, NML has taken various cost-improvement initiatives, such as setting up a 4.5-MW power plant in FY2010 which operates on gas generated from the mini blast furnace and commissioning a sinter plant in FY2012. In April 2021, the company had commissioned a pulverised coal injection (PCI) facility to partially replace the costlier coke with cheaper pulverised coal, which led to significant cost savings.

Larger size of new mini blast furnace to support better efficiency and increase cost competitiveness – As a part of the company's growth strategy, it has set up a new larger sized furnace, the capacity of which is almost double that of the existing mini blast furnace. Once this new furnace is operational, the production costs are expected to come down substantially due to better efficiency parameters, such as reduction in coke rate, increased PCI rate, more production days emanating from improved hearth design, higher power generation from captive facilities and lower power consumption. This would increase the cost competitiveness of the company and cushion its profits during periods when pig iron prices remain less buoyant.

Credit challenges

Losses expected in FY2025; quantitative restrictions imposed on coke imports remain a credit negative – While the broader steel industry has been reeling under margin pressure in the current fiscal, the impact on standalone pig iron players like NML has been greater with pig iron spreads dipping to multi-year lows in the current fiscal. This adverse performance can be partly attributed to the company's decision to continue to operate its old furnace, which has almost approached the end of its campaign life, resulting in increased fuel rates. Another major cause for the margins to be under pressure is the Government's move to impose quantitative restrictions on the import of coke in December 2024, a key input for manufacturing pig iron. The import restrictions on coke have driven up domestic coke prices, straining the margins of pig iron producers. A combination of the above factors is expected to result in net losses for the company in FY2025. While the quantitative restrictions are in place till June 30, 2025, any extension/renewal of the same will remain a key monitorable.

Leverage indicators expected to remain under check due to debt-funded capex – NML, which has remained a low debt company until FY2023, saw its leverage metrics moderating FY2024 onwards because of the debt-funded capex undertaken to set up the new furnace along with the supporting infrastructure. Besides the project debt, the company has taken on additional debt to fund the purchase of two rakes under the General Purpose Wagon Investment Scheme (GPWIS) in the current fiscal, which has further increased its indebtedness. While the investments in the rakes will lead to sizeable cost savings once the new furnace starts operations, it will put pressure on the leverage indicators. ICRA expects the company's total debt/OPBDITA to remain in the range of 2.5-3.7 times in FY2026/FY2027.

Profit and cash flows exposed to cyclical nature of pig iron business – Raw materials account for a major portion of the operational cost for pig iron players, including NML, and are thus important determinants of profitability. As the pig iron business is cyclical in nature because of its exposure to the cyclicality of the steel industry, NML's cash flows and profitability would remain vulnerable to the mismatches in the prices of raw materials and pig iron. However, NML's semi-integrated nature of business, with the presence of the sinter plant, the captive power plant and the PCI facility, enhances its cost competitiveness and reduces the vulnerability to an extent.

Commoditised nature of product keeps margins under check – The company operates in a commoditised market and is a price taker. The low value-added nature of its business, combined with the fragmented market structure, keeps the company's profit margins under check.

Liquidity position: Adequate

NML's liquidity profile remains adequate, reflected in the cash/bank/liquid investment portfolio of around Rs. 54 crore as of February-end 2025. While the company has sizeable debt repayments of around Rs. 52 crore in FY2026, ICRA expects its fund flow from operations to increase to Rs. 45-50 crore next fiscal, which will help the company meet its service its debt obligations through internal sources of cash. Moreover, given the large investment made by NML, its access to need-based funds from the promoters is also expected to support its liquidity position.

Rating sensitivities

Positive factors – The outlook could be revised to Stable if the company is able to stabilise and ramp up the operations of the new expansion project, leading to a significant improvement in the earnings and credit metrics.

Negative factors – Pressure on NML's ratings could arise if the company is unable to stabilise and ramp up the operations of the expansion project, resulting in continued pressure on the credit metrics and weakening of the liquidity profile. A specific metric for downgrade includes a total debt/OPBDITA of more than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Neo Metaliks Limited (NML) was set up in FY2003 and was jointly promoted by the Madhogaria and Agarwal families of Kolkata. In FY2005, the Madhogaria family exited the business and the Agarwal family took complete control of the company. NML manufactures pig iron at its plant in Durgapur, West Bengal (since FY2007), with an installed capacity of 1,88,000 TPA. As a part of its backward integration initiative, the company has set up a waste heat recovery-based captive power plant of 4.5 MW and a sinter plant with a capacity of 3,00,000 TPA. The company has completed the expansion project on September 30, 2024 and its current pig iron capacity stands at 4,22,000 TPA. The current sinter capacity stands at 7,21,000 TPA along with a CPP of 14.5 MW.

Key financial indicators (Audited)

NML Standalone	FY2023	FY2024
Operating income	1068.0	930.6
PAT	35.6	26.1
OPBDIT/OI	6.7%	4.5%
PAT/OI	3.3%	2.8%
Total outside liabilities/Tangible net worth (times)	1.0	1.4
Total debt/OPBDIT (times)	1.1	6.2
Interest coverage (times)	12.4	4.7

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

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL	CRISIL B /Stable/ CRISIL A4 (SSUER NOT COOPERATING; Revised from 'CRISIL BB+/Stable/A4+ ISSUER NOT COOPERATING*)	May 30, 2024

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long Term	78.50	Mar 28, 2025	[ICRA]BBB+ (Negative)	Dec 28, 2023	[ICRA]A- (Stable)	Jul 14, 2022	[ICRA]A- (Stable)	Jul 8, 2021	[ICRA]A- (Stable)
							Sep 29, 2022	[ICRA]A- (Stable)		
Term loans	Long Term	305.00	Mar 28, 2025	[ICRA]BBB+ (Negative)	Dec 28, 2023	[ICRA]A- (Stable)	Jul 14, 2022	[ICRA]A- (Stable)	Jul 8, 2021	[ICRA]A- (Stable)
							Sep 29, 2022	[ICRA]A- (Stable)		
Non-fund based facilities	Short Term	160.00	Mar 28, 2025	[ICRA]A2	Dec 28, 2023	[ICRA]A2+	Jul 14, 2022	[ICRA]A2+	Jul 8, 2021	[ICRA]A2+
							Sep 29, 2022	[ICRA]A2+		

Complexity level of the rated instruments

Instrument	Complexity indicator
Fund-based limits	Simple
Non-fund based facilities	Very Simple
Term loans	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-1: Instrument details

ISIN	Instrument name	Date of issuance /Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
NA	**Long term - Fund-based limits**	NA	NA	NA	78.50	[ICRA]BBB+(Negative)
NA	**Short term - Non-fund based facilities**	NA	NA	NA	160.00	[ICRA]A2
NA	**Long term – Fund-based - Term loans**	FY2023	NA	FY2031	305.00	[ICRA]BBB+(Negative)

Source: Company

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

Annexure-2: 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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