December 01, 2022

Minex Metallurgical Company Limited: Rating reaffirmed; [ICRA]A1 assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term, fund-based facilities	85.0	110.0	[ICRA]A1; reaffirmed/assigned
Short term, interchangeable	(67.0)	(81.0)	[ICRA]A1; reaffirmed/assigned
Total	**85.0**	**110.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Minex Metallurgical Company Limited's (MMCL) continued strong liquidity profile with unencumbered investments of Rs. 94 crore, which are invested in various equity and debt mutual funds (market value of Rs. 114.1 crore as on September 30, 2022). Undrawn bank limits of Rs. 66.1 crore as on October 31, 2022 additionally support the liquidity position. Besides, the company continues to maintain a healthy financial risk profile, as reflected in its low gearing and strong coverage indicators. The rating also favourably factors in MMCL's position as one of the leading players in the metallurgical cored wire and ferro aluminium alloy segments in India and extensive experience of the promoters in the industry. ICRA also favourably considers MMCL's diverse customer base spread across steel and aluminium industries as well as across geographies with exports accounting for 29% of revenues in Q1 FY2023.

MMCL's revenues reported a healthy growth in revenues and profits in FY2022 due to demand recovery in the ferrous metal industry, leading to an improvement in realisation. Aided by higher sales and management's focus on better-margin orders, the contribution increased in FY2022, leading to an improved operating profit margin (OPM). However, the financial performance is expected to weaken in FY2023 due to a decline in sales volume caused by the subdued demand in the steel sector so far. The OPM is also expected to fall in FY2023 owing to consumption of high-cost inventory. Nonetheless, the liquidity position of the company is expected to remain strong, aided by healthy balance of investments and absence of any major capital expenditure (capex) plans as well as negligible debt repayment obligations.

The rating is also constrained by MMCL's moderate business return indicators due to modest capacity utilisation levels. The company's working capital intensity of operations (as reflected in its net working capital to operating income of 45% as on March 31, 2022) remains high due to high inventory holding period. The OPM also remains constrained by the intense competition in the domestic and export markets, resulting in limited pricing power. The company further remains exposed to foreign exchange (forex) fluctuation risks due to a mismatch between its exports and imports. However, the currency risk is largely mitigated by hedging through forward contracts.

Key rating drivers and their description

Credit strengths

Highly experienced management – The company is promoted by Mr. S. B. Misra, who is a metallurgical engineer. He has an overall experience of about five decades in the field of metals and manufacturing.

Diversified customer base –The company has been able to maintain long-term relationships with reputed steel players across geographies owing to the management's rich experience in the metals segment. The company has a pan-India presence, and its customer base has largely remained diversified with the top-5 customers contributing 40-45% to revenues over the last three fiscals.

Healthy financial risk profile and strong liquidity position – The financial risk profile of MMCL is healthy, marked by low reliance on external debt (with gearing of 0.3 times as on March 31, 2022) and comfortable coverage indicators. The company's OPM increased to 19.4% in FY2022 from 12.3% in FY2021 due to high-contribution products from elevated sales realisations and benefit of low-cost inventory. The debt protection metrics stood comfortable on the back of improved operating profitability and moderate bank limit utilisation, as reflected in an interest coverage of 40.0 times in FY2022. The total debt-to-operating profit ratio (total Debt/OPBDITA) stood at 0.8 times as on March 31, 2022. The liquidity profile of MMCL remains healthy with unencumbered investments of Rs. 94 crore in equity and debt mutual funds as on September 30, 2022. Going forward, MMCL's financial risk profile is expected to remain comfortable, given its low reliance on external debt, increasing net worth and sufficient liquidity buffers available.

Credit challenges

Working capital intensive nature of operations – The company's operations are working capital intensive in nature, characterised by the high net working capital to operating income (NWC/OI) of 40-45% over the last two fiscals due to high inventory holding period. Besides, high credit period offered to customers in the range of 60-120 days and 120-150 days led to high debtors' recovery cycle, resulting in NWC/OI to remain high. Any stretch in the working capital operations, leading to a stretch in liquidity, would remain a key rating monitorable.

Exposure to forex risk – MMCL imports 60-70% of its raw material requirements and has export presence as well (25-30% of total sales), which acts as a partial natural hedge. The company remains exposed to forex risks to the extent of any mismatch between its imports and exports. However, the risk is largely mitigated by hedging through forward contracts. The company has not reported any major forex loss in the last five years.

Stiff competition in the business limits operating profitability – MMCL faces a lot of competition in the cored wire and alloying segment in the domestic and export markets, which results in limited pricing power and constrains its OPM.

Liquidity position: Strong

The company's liquidity position remains strong, supported by unencumbered investments of Rs. 94 crore in equity and debt schemes of mutual funds (market value Rs. 114.1 crore as on September 30, 2022). The average fund-based working capital limit utilisation of MMCL stood at 62% during the 12-month period ended on October 31, 2022 (reflecting an average unutilised limit of Rs. 41.1 crore during the said period). These are expected to adequately support the liquidity position, despite an estimated fall in the operating profits in FY2023. The company does not have any major capex plan in the near term, nor does it have any repayment obligation.

Rating Sensitivities

Positive factors – MMCL's rating could be upgraded if there is a significant increase in the company's scale of operations and profitability. Specific credit metric that could lead to a rating upgrade includes return on capital employed (RoCE) remaining above 20% on a sustained basis.

Negative factors – Pressure on MMCL's rating may arise in case of any significant deterioration in its financial risk profile or any weakening in its liquidity position. Specific credit metric that could lead to a rating downgrade includes the interest cover remaining below 5.5 times on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for ferrous metal entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1981 by Mr. Sukhendu Misra, MMCL manufactures metallurgical cored wires, ferro aluminium alloys, cored wire feeders, cast iron powder and aluminium master alloys. It has manufacturing facilities at Kalmeshwar, Nimji and Butibori in Nagpur and Vasai, Mumbai, Maharashtra with an installed capacity of 20,000 MTPA for metallurgical cored wire/aluminium wire, 18,000 MTPA for aluminium master alloys/aluminium wire rods and 3,000 MTPA for cast-iron powder and 40 cored wire feeders.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	232.1	465.6
PAT (Rs. crore)	22.5	76.1
OPBDIT/OI	12.3%	19.4%
PAT/OI	9.7%	16.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.6
Total debt/OPBDIT (times)	0.6	0.8
Interest coverage (times)	58.2	39.7

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 of Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020	
					01-Dec-2022	12-Oct-2021	24-Sep-2021	06-Nov-2020	03-Jul-2020	03-Jun-2019	
1	Fund based, cash credit	Long-term	-	-	-	[ICRA] A+ (Stable); withdrawn	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	
2	Interchangeable	Long term	-	-	-	[ICRA] A+ (Stable); withdrawn	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	-	-	
3	Fund based	Short term	110.0	-	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1	-	-	
4	Interchangeable	Short term	(81.0)*	-	[ICRA] A1	[ICRA] A1	-	-	-	-	
5	Fund based/non-fund based	Short term	-	-		-	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1	

**non-fund-based limits are sublimit of short-term fund-based limit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term, fund-based	Simple
Short term, interchangeable	Very 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
	Short term, fund-based facilities	-	-	-	110.0	[ICRA] A1
	Short term, interchangeable	-	-	-	(81.0)	[ICRA] A1

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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