March 29, 2023

IFGL Refractories Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit/Packing Credit	143.00	142.00	[ICRA]AA- (Stable); reaffirmed
Term Loan	-	120.00	[ICRA]AA- (Stable); assigned
Untied Limits	20.00	-	-
Letter of Credit/Bank Guarantee	10.00	11.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Letter of Credit/Bank Guarantee#	(62.00)	(61.00)	[ICRA]A1+; reaffirmed
Total	**173.00**	**273.00**	

**Instrument details are provided in Annexure-1*
#Non-fund based limits of Rs. 61.00 crore is the sub-limit to the fund-based working capital limits

Rationale

While arriving at the ratings, ICRA has considered the standalone financials of IFGL Refractories Limited (IFGL), given the management's stated intent of not providing any financial support to its overseas subsidiaries from the domestic business.

The reaffirmation of the ratings factors in IFGL's strong financial risk profile, as reflected in its conservative capital structure and healthy debt coverage indicators. IFGL's liquidity position remained strong over the years, as reflected in a large free cash/bank/liquid investment portfolio, aided by strong free cash flows generated in most of the recent years. The net debt (total debt less cash, bank and liquid investments) of the company remained negative as on March 31, 2022. Notwithstanding the debt-funded capex towards capacity expansion to be incurred over FY2023 and FY2024, ICRA's expects IFGL's credit metrics to remain comfortable, going forward. The ratings also factor in the extensive experience of the promoters and established track record of operations in the refractory business, which ensure repeat business. The ratings further factor in the company's strong customer base, long-term relationships with several key clients, and its diversified revenue base across multiple geographies and customers, which partly reduces the downside risks arising from region/customer-specific demand concerns.

The ratings, however, continue to be constrained by the company's exposure to the cyclicality inherent in the steel industry as it derives most of its revenues from sales to the steel companies. Moreover, the pricing power of the refractory players, including IFGL, is limited owing to intense competition from large and established global refractory manufacturers, which along with its limited bargaining power with established customers, restricts the company's pricing flexibility. The ratings also factor in IFGL's exposure to fluctuations in supply and prices of raw materials as it imports a large portion of its raw materials from China. While IFGL's long-term relationships resulted in stable supply linkages, any disruption in supply may result in an increase in raw material prices, going forward, impacting the company's profitability. The ratings also remain constrained by the execution and operations-specific risks associated with the large-scale capex programme towards the capacity expansion, to be incurred over FY2023 and FY2024. Besides the long gestation period, the operational risks associated with the project will increase if the project commissioning coincides with the cyclical downturn in the steel sector, the primary consumer of IFGL.

The Stable outlook on the long-term rating reflects IFGL's established position in the flow-refractory segment, which along with its efficient cost structure, is expected to keep its credit metrics at comfortable level, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record of operations in the refractory business – The company is promoted by the S. K. Bajoria Group of India and Krosaki Harima Corporation of Japan, a global leader in the refractories business. Vast experience of the management and the company's established track record of close to three decades of operations in the refractory manufacturing business help IFGL to remain competitive in the market. Further, repeat orders from reputed customers highlight the technical competence of IFGL and the confidence that it has gained from its customers. On a consolidated basis, IFGL's operations are spread across China, Germany, India, the UK and the US. However, ICRA observes that no financial support has been extended by the standalone domestic operations to its overseas subsidiaries.

Conservative capital structure and healthy debt coverage indicators – The capital structure of the company has remained conservative (gearing of 0.13 times as on March 31, 2022) over the past years owing to a healthy net worth and low reliance on debt. IFGL's coverage indicators continued to remain healthy (interest coverage of 25.93 times and 21.75 times in FY2022 and 9M FY2023, respectively on account of healthy profits as well as cash accruals and low debt level. The net debt (total debt less cash, bank and liquid investments) of the company remained negative as on March 31, 2022. Notwithstanding the debt-funded capex towards capacity expansion to be incurred over FY2023 and FY2024, ICRA expects IFGL's credit metrics to remain comfortable, going forward.

Strong customer profile and geographical diversification of revenues – The company has a strong customer profile, which includes several large steel manufacturing companies in the domestic and overseas markets, while enjoying long-term relationships with several of its key clients. The company's customer profile remains well diversified with its top five customers driving 30-35% of its total sales. IFGL's revenues are diversified in the domestic and overseas markets. Its exports account for 55-60% of its total sales. Access to overseas markets insulates IFGL's revenue profile from demand fluctuations in the domestic market and provides higher growth opportunities.

Credit challenges

Intense competition in the industry – The pricing power of the refractory players, including IFGL, is limited owing to intense competition from large and established global refractory manufacturers. Besides, limited bargaining power of the company with its established customers restricts the company's pricing flexibility.

Exposure to fluctuations in supply and prices of raw materials, cyclicality inherent in the steel industry – The company imports a large portion of its raw materials (like zirconia and aluminium oxide) from China. While IFGL's long-term relationships resulted in stable supply linkages, any disruption in supply may result in an increase in raw material prices, going forward, impacting the profitability of the company. IFGL also remains exposed to the cyclicality inherent in the steel industry as it derives most of its revenues from sales to the steel companies.

Sizeable capex and associated risks – The company has announced a capex programme accumulating around ~Rs.180 crore, to be incurred over FY2023 and FY2024 for capacity expansion mainly. The capex plans are large vis-à-vis IFGL's current balance sheet size and hence remains exposed to operational and execution risks. Besides the long gestation period, the operational risks associated with the project will increase if the project commissioning coincides with a cyclical downturn in the steel sector, which is the primary consumer for IFGL.

Liquidity position: Strong

IFGL's liquidity profile remains **strong**, as reflected in the large free cash balance and liquid investment portfolio of around Rs.118.22[1] crore (on a standalone basis) as on December 31, 2022, which impart a high degree of financial flexibility to the company. Low utilisation of working capital limits, along with expected stable cash flows from operations would support IFGL's overall liquidity profile, going forward, notwithstanding the large capex programme for which the long-term funding is already in place.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to significantly scale up its operations while maintaining comfortable credit metrics and a strong liquidity profile while further diversifying its product profile across various refractory sub-segments.

Negative factors – Pressure on IFGL's ratings may arise if there is a significant drop in profitability, an increase in the working capital intensity of operations and/ or any substantial debt-funded capital expenditure/investment. Specific credit metrics that could result in ratings downgrade include Net Debt/ OPBDITA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of IFGL.

About the company

IFGL Refractories Limited (IFGL, formerly known as IFGL Exports Limited) is a Kolkata-based Indian multinational company. IFGL was merged with its subsidiary, IFGL Exports Limited, with effect from April 1, 2016, which was involved in the manufacturing of continuous casting refractories. Subsequently, the name of IFGL Exports Limited was changed to IFGL Refractories Limited with effect from October 25, 2017. IFGL Refractories Limited was promoted by the SK Bajoria Group (56.92%), India and Krosaki Harima Corporation (15.51%), Japan, a subsidiary of Nippon Steel Corporation, in 1993. The company manufactures specialised refractories and requisite operating systems for flow control in steel teeming and continuous casting of steel. The manufacturing facilities of the company in India are located in Kandla (Gujarat) and Rourkela (Odisha) and Vizag (Andhra Pradesh). On a consolidated basis, IFGL's operations are spread across China, Germany, India, the UK and the US.

Key financial indicators (Audited)

IFGL Standalone	FY2021	FY2022	9MFY2023^
Operating Income (Rs. crore)	641.11	779.41	623.09
PAT (Rs. crore)	44.83	63.22	38.23
OPBDIT/OI (%)	20.43%	14.22%	13.34%
PAT/OI (%)	6.99%	8.11%	6.14%
Total Outside Liabilities/Tangible Net Worth (times)	0.34	0.42	-
Total Debt/OPBDIT (times)	0.28	0.68	-
Interest Coverage (times)	34.05	25.93	21.75

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

[1] Arrived at by applying appropriate haircuts on the gross unencumbered liquidity of Rs.138.1 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 of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 29, 2023	Jan 27, 2022	Jan 5, 2021	Jan 2, 2020
1	Cash Credit/Packing Credit	Long Term	142.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Term loan	Long Term	120.00	0.00	[ICRA]AA- (Stable)	-	-	-
2	Untied Limits	Long Term	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Letter of Credit/Bank Guarantee	Short Term	11.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Letter of Credit/Bank Guarantee#	Short Term	(61.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore; # Non-fund based limits of Rs. 61.00 crore is the sub-limit to the fund-based working capital limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit/Packing Credit	Simple
Term loan	Simple
Letter of Credit/Bank Guarantee	Very Simple
Letter of Credit/Bank Guarantee#	Very Simple

 # Non-fund based limits of Rs. 61.00 crore is the sub-limit to the fund-based working capital limits

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	Cash Credit/Packing Credit	NA	NA	NA	142.00	[ICRA]AA- (Stable)
NA	Term Loan				120.00	[ICRA]AA- (Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	11.00	[ICRA]A1+
NA	Letter of Credit/Bank Guarantee#	NA	NA	NA	(61.00)	[ICRA]A1+

Source: *Company; # Non-fund based limits of Rs. 61.00 crore is the sub-limit to the fund-based working capital limits*

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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