November 17, 2023

Minex Metallurgical Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based limits	110.00	70.00	[ICRA]A1; reaffirmed
Short Term – Interchangeable	(81.00)	(70.00)	[ICRA]A1; reaffirmed
Total	**110.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Minex Metallurgical Company Limited's (MMCL) continued strong liquidity profile with unencumbered investments of Rs. 95.4 crore, which are invested in various equity, debt and liquid mutual funds (market value of Rs. 121.1 crore as on August 31, 2023). Undrawn bank limits of Rs. 62.7 crore as on September 30, 2023 additionally support the liquidity position. Besides, the company continues to maintain a healthy financial risk profile, as reflected in its low gearing and healthy 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 23% of revenues in 5M FY2024.

ICRA notes the weakened operating profit margins (OPM) of the company in FY2023 and H1 FY2024 due to consumption of high-cost inventory (till Q1 FY2024) and weakened realisations. That said, with improvement in demand in H2 FY2024, the profit margins are expected to recover and are likely to remain range bound vis-à-vis FY2023 levels. Nonetheless, the liquidity position of the company is expected to remain strong, aided by healthy investments balance and absence of any major capital expenditure (capex) plans as well as negligible debt repayment obligations. The management's focus on execution of better-margin orders and control on inventory holding period (to minimise inventory losses) would support the OPM over the medium term.

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 43% as on June 30, 2023) remains high due to high inventory holding period and collection cycle. The OPM also remains constrained by 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

Experienced management – The company is promoted by Mr. S. B. Misra, a metallurgical engineer. He has an overall experience of about five decades in the field of metals and manufacturing. Besides, the company has formed a group of team leaders from respective domains, who report directly to the management and are responsible to look after the day-to-day operations.

Diversified customer base – The company has been able to maintain long-term relationships with reputed steel players across geographies owing to the management's long 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 42-57% 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. The company's OPM decreased to 5.1% in FY2023 from 19.4% in FY2022 due to high-cost inventory consumption amid fall in realisations. However, the debt protection metrics stood comfortable on the back of moderate utilisation of bank limits, as reflected in an interest coverage of 6.7 times in FY2023. The total debt to-operating profit ratio (total Debt/OPBDITA) stood at 0.4 times as on March 31, 2023. The liquidity profile of MMCL remains healthy with unencumbered investments of Rs. 95.4 crore in equity, debt and liquid mutual funds as on August 31, 2023. Going forward, MMCL's financial risk profile is expected to remain comfortable, given its limited reliance on external debt 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 high net working capital to operating income (NWC/OI) of 36-45% over the last three fiscals, primarily 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, translating into high working capital intensity of operations. 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 on need basis. The company has not reported any major forex loss in the last five years.

Stiff competition in the business limits operating profitability – MMCL faces intense 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. 95.4 crore in equity, debt and liquid schemes of mutual funds (market value Rs. 121.1 crore as on September 30, 2023). The average fund-based working capital limit utilisation of MMCL stood at 9% during the 12-month period ended on September 30, 2023 (reflecting an average unutilised limit of Rs. 63.7 crore during the period). These are expected to adequately support the liquidity position, despite subdued operating profits in FY2024. 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 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)

	FY2022	FY2023
Operating income	465.6	429.5
PAT	76.4	18.6
OPBDIT/OI	19.4%	5.1%
PAT/OI	16.4%	4.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.1
Total debt/OPBDIT (times)	0.8	0.4
Interest coverage (times)	41.8	6.7

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 (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Nov 17, 2023	Dec 01, 2022	Oct 12, 2021	Sep 24, 2021	Nov 06, 2020	Jul 03, 2020
1	Fund Based – Cash credit	Long Term	-	-	-	-	[ICRA]A+ (Stable); Withdrawn	[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 limits	Short Term	70.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
4	Interchangeable	Short Term	(70.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-	-
5	Fund based/Non Fund based	Short Term	-	-	-	-	-	[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 limits	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
NA	Short Term – Fund Based limits	-	-	-	70.00	[ICRA]A1
NA	Short Term – Interchangeable	-	-	-	(70.00)	[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.

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