March 26, 2024

IFGL Refractories Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based - Cash Credit/Packing Credit	142.00	142.00	[ICRA]AA- (Stable); reaffirmed
Long Term – Fund based - Term Loan	120.00	120.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-Fund based - Letter of Credit/Bank Guarantee	11.00	11.00	[ICRA]A1+; reaffirmed
Short-term – Interchangeable Limits - Letter of Credit/Bank Guarantee#	(61.00)	(61.00)	[ICRA]A1+; reaffirmed
Total	**273.00**	**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 reaffirmed ratings factor in IFGL's strong financial risk profile, as reflected in its conservative capital structure and healthy debt coverage indicators. IFGL's liquidity position has remained strong over the years, as reflected in a large free cash/bank/liquid investment portfolio. The company's net debt (total debt less cash, bank and liquid investments) remained negative as on March 31, 2023. Despite IFGL's large capex plans over the next few years for capacity expansion that are partly debt-funded, ICRA expects IFGL's credit metrics and liquidity profile to remain comfortable going forward. The ratings also factor in the extensive experience of the promoters and the established track record of operations in the refractory business, which ensures repeat business. The ratings further consider the company's strong customer base, long-term relationships with several key clients, as well as its diversified revenue base across multiple geographies and customers, partly reducing downside risks arising from region/customer-specific demand concerns. The outlook for refractory manufacturers, including IFGL, remains favourable over the medium term, given that its primary end user, the steel industry, is significantly scaling up its capacity in India in the foreseeable future. IFGL has been setting up additional capacities through brownfield and greenfield expansions, aligning with the capex plans of steel companies, which will support its future revenue and profit growth.

The ratings, however, remain constrained by the company's exposure to the cyclical steel industry, from which it derives most of its revenue. Moreover, the pricing power of the refractory players, including IFGL, is limited owing to intense competition from large and established global refractory manufacturers operating in India. Such factors, coupled with IFGL's limited bargaining power with established customers, restrict the company's pricing flexibility. However, the threat of imports is not prevalent in the refractories segment where IFGL operates, which helps maintain price discipline to an extent. The ratings also factor in IFGL's exposure to fluctuations in the 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 increase raw material prices going forward, impacting the company's profitability. The ratings also remain constrained by the execution and operation-specific risks associated with the large-scale capex programme (including the recently announced greenfield project at Odisha - Khordha district) towards the capacity expansion to be incurred over the next few years. Besides the long gestation period, the project's operational risks will increase if the commissioning coincides with the cyclical downturn in the steel sector, IFGL's end-user industry.

The Stable outlook on the long-term rating reflects IFGL's established position in the flow control refractory segment, which, along with its efficient cost structure, is expected to keep its credit metrics at a 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 (KHC) of Japan, a global leader in the refractories business. However, KHC exited its entire stake in the current fiscal by selling it off to the S. K. Bajoria Group. The vast experience of the management and the company's established track record of more than four decades of operations in the refractory manufacturing business help IFGL remain competitive in the market. Further, repeat orders from reputed customers highlight the technical competence of IFGL and the confidence 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 0.2 times as on March 31, 2023) 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 20.52 times and 17.35 times in FY2023 and 9M FY2024, respectively) on account of healthy profitability and low debt level. The net debt (total debt less cash, bank and liquid investments) of the company remained negative as on March 31, 2023. Notwithstanding the company's large capex plans towards capacity expansion over the next few years that is partly debt-funded, ICRA expects IFGL's credit metrics to remain comfortable going forward. The liquidity profile of the company remains strong, as reflected in the large free cash/bank/liquid investment portfolio of ~Rs. 107 crore at the end of September 2023.

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, and it enjoys 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 45-60% 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.

Favourable demand scenario following the secular growth in India's steel demand in the foreseeable future – As per ICRA's estimates, the domestic steelmaking capacity is slated to increase by around 39 million tonnes per annum (mtpa) in the foreseeable future. This is attributed to the expectations of rising steel demand aided mainly by the government's strong infrastructure push among other factors. Such factors bode well for refractory manufacturers including IFGL, whose primary end user is steel companies. IFGL has been setting up additional capacities through brownfield and greenfield expansions, aligning with the capex plans of steel companies, which will support its future revenue and profit growth.

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 operating out of India. Besides, the limited bargaining power of the company with its established customers restricts the company's pricing flexibility. However, the threat of imports is not prevalent in the refractories segment where IFGL operates, which helps in maintaining price discipline to an extent.

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 company's profitability. IFGL also remains exposed to the inherent cyclicality in the steel industry, as it derives most of its revenues from sales to steel companies.

Sizeable capex and associated risks – The company is in the midst of a large-sized capex plan (includes the recently announced greenfield project at Odisha - Khordha district), a part of which has already been completed and the remaining will be completed over the next few years. The capex plans are large vis-à-vis IFGL's current balance sheet size and hence, remain 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 IFGL's primary consumer.

Liquidity position: Strong

IFGL's liquidity profile remains strong, as reflected in the large free cash/bank balance and liquid investment portfolio of around Rs. 107[1] crore (on a standalone basis) as on September 30, 2023, which imparts a high degree of financial flexibility to the company. Notwithstanding the large capex programme, low utilisation of working capital limits (~38% average utilisation between January and December of CY2023), along with expected stable cash flows from operations, would support IFGL's overall liquidity profile going forward.

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 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 is promoted by the S. K. Bajoria Group, India, and Krosaki Harima Corporation, Japan, a subsidiary of Nippon Steel Corporation. However, KHC exited its entire stake in the current fiscal by selling it off to the S. K. Bajoria Group. 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.

[1] Arrived by applying appropriate haircuts on the gross unencumbered liquidity

Key financial indicators

IFGL standalone	FY2022 (Audited)	FY2023 (Audited)	9M FY2024 (Provisional)
Operating income (Rs. crore)	779.41	825.20	683.61
PAT (Rs. crore)	63.22	61.17	49.55
OPBDIT/OI (%)	14.22%	13.94%	17.84%
PAT/OI (%)	8.11%	7.41%	7.25%
Total outside liabilities/tangible net worth (times)	0.42	0.40	-
Total debt/OPBDIT (times)	0.68	0.91	-
Interest coverage (times)	25.93	20.52	17.35

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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 26, 2024	Mar 29, 2023	Jan 27, 2022	Jan 5, 2021
1	**Cash Credit/Packing Credit**	Long Term	142.00	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
2	**Term loan**	Long Term	120.00	44.58	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	-	-
2	**Untied Limits**	Long Term	-	-	-	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (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+**

#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**	FY2023	NA	FY2028	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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