November 05, 2024

Premier Alloys & Chemicals Private Limited: Rating reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based limits	34.00	34.00	[ICRA]BBB+ reaffirmed; outlook revised to Negative from Stable
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook considers the weaker-than-expected performance of Premier Alloys & Chemicals Private Limited (PACPL) in FY2024 with a decline in realisations and expectation of slower recovery in FY2025. The company's revenue declined by ~7% in FY2024 on the back of lower realisations and inventory losses. The company's operating margins dipped to 0.6% in FY2024 from 7.1% in FY2023, resulting in a deterioration in the entity's coverage indicators. The interest coverage ratio declined to 1.5 times in FY2024, from 14.0 times in FY2023. In H1 FY2025, while the margins continued to be impacted, recovery is expected from H2 FY2025 on the back of the new terms with its key clients. Consequently, for the full fiscal FY2025, the coverage indicators are expected to remain constrained and would be a key monitorable. However, the liquidity is adequate, with sufficient cushion of ~Rs. 28 crore in the working capital limits and free cash and bank balances of Rs. 0.1 crore as on March 31, 2024.

The rating remains supported by PACL's established presence in the noble ferro alloys industry, being among the top industry players with a healthy market share and an established relationship with reputed clients as well as suppliers. PACPL is one of the largest producers of ferro-vanadium (FeV) and ferro-molybdenum (FeMo) and its client base includes reputed players such as the Steel Authority of India Limited (SAIL), Tata Steel Limited, Jindal Steel & Power Limited (JSPL) and JSW Steel Limited. PACPL's capital structure remained comfortable with a gearing of 0.1 times in FY2024.

The company's revenues have remained susceptible to the cyclicality associated with the steel industry as it derives most of its revenues from the steel sector. The rating also considers the exposure of PACPL's margins to the fluctuations in foreign exchange rates and raw material prices and the supplier concentration for sourcing key raw materials, which exposes the company to the risk of potential delays in their timely availability. However, such risks are partially mitigated by the company's established relationships with the suppliers, as well as its recent initiatives to diversify the supplier base to newer geographies in South East Asia and Latin America.

ICRA notes that the low duty differential between the prices of imported raw materials with finished goods and the free trade agreements (FTAs) with key producer countries have resulted in pricing parity between imported and domestic products, raising concerns over import substitution risk and exerting pressure on the overall profitability.

Key rating drivers and their description

Credit strengths

Established presence in noble ferro alloys industry – PACPL has a long track record of over 40 years in the noble ferro alloys industry, resulting in established relationships with customers and suppliers. It is one of the largest manufacturers of FeV and FeMo in India with a sizeable market share.

Reputed customer base – PACPL is one of the largest producers of FeV and FeMo and its client base includes reputed players such as SAIL, Tata Steel, JSPL, JSW Steel, etc. Although the customer concentration remains high, the company has been associated with these clients for a long period, resulting in repeat orders and mitigating the client concentration risks to an extent. The established client profile mitigates the counterparty credit risks as well.

Healthy capital structure – The company's capital structure remained comfortable with a gearing of 0.1 times as on March 31, 2024, down from 0.2 times as on March 31, 2023. ICRA expects the capital structure to remain low over the medium term, supported by reduced debt levels and no capex plans.

Credit challenges

Weaker-than-anticipated performance in FY2024 – PACPL's performance in FY2024 was constrained by inventory losses because of a decline in raw material prices and lower realisation of ferro vanadium. PACPL's revenues fell by ~7% in FY2024 due to a decline in realisations. The company's operating margins dipped to 0.6% in FY2024 from 7.1% in FY2023, resulting in a deterioration in the entity's coverage indicators. The interest coverage ratio declined to 1.5 times in FY2024, from 14.0 times in FY2023. In H1 FY2025, while the margins continued to be impacted, recovery is expected from H2 FY2025 under the new terms with its key clients. Consequently, for the full fiscal FY2025, the coverage indicators are expected to remain constrained and would be a key monitorable.

Susceptibility of revenues to cyclicality of end-user steel industry – PACPL's products find application in the special steels, chemical industry, super alloys/public aerospace and batteries in the automobile segment. The company's operating income has remained vulnerable to the cyclicality in the steel industry.

Import substitution risk – The company is heavily reliant on imports, given the non-availability of raw materials (ore reserves) in the country. Quite a few end-users prefer to import the finished goods directly as the price differential between imported finished goods and domestic goods is low. This increases the import substitution risk, especially from countries like South Korea with whom India has FTAs.

Exposed to foreign exchange fluctuation – The company is exposed to foreign currency fluctuations as a sizeable raw material requirement is imported from suppliers located outside India, resulting in a long lead time for delivery. However, the company's long relationship with the customers helps it renegotiate the quoted prices, which partly compensates for any adverse movement in foreign currency fluctuations and a consequent rise in input costs.

Liquidity position: Adequate

Healthy retained cash flows from operations and moderate working capital and capex requirements of the business have resulted in an adequate liquidity position for the company. The average utilisation of the cash credit facilities during June 2023 to July 2024 was at a comfortable 25% of the sanctioned limits. Moreover, the liquidity position is expected to remain comfortable in the near term with no scheduled debt repayment obligations and expectations of positive cash flow from operations.

Rating sensitivities

Positive factors – The long-term rating outlook can be revised to Stable if there is a significant growth in earnings along with an improvement in the debt protection metrics.

Negative factors – The rating could be downgraded if there is sustained pressure on the profitability and debt coverage indicators, or if there is any sizeable dividend payout which could impact the liquidity position. A specific credit metric for downgrade would be an interest coverage below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PACPL, based in Hyderabad, was started as a proprietary concern in 1978 by Mr. G. S. Marda and was converted into a private limited company in 1988. It manufactures two noble ferro alloys, namely ferro vanadium (FeV) and ferro molybdenum (FeMo). In addition, the company sells the intermediate (chemical) products, that is, vanadium pentoxide (V_2O_5) and ammonium meta vanadate (NH_4VO_3). PACPL has an installed capacity of 2,646 metric tonnes per annum (MTPA), of which 1,134 MTPA is FeV capacity and 1,512 MTPA is FeMo capacity.

Key financial indicators (audited)

PACPL	FY2023	FY2024
Operating income	443.7	411.0
PAT	21.3	0.1
OPBDIT/OI	7.1%	0.6%
PAT/OI	4.8%	0.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.2
Total debt/OPBDIT (times)	0.4	2.6
Interest coverage (times)	14.0	1.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount	Nov 5, 2024	Date	Rating	Date	Rating	Date	Rating
Long term - Cash credit - Fund-based	Long term	34.00	[ICRA]BBB+ (Negative)	21-AUG-2023	[ICRA]BBB+ (Stable)	23-MAY-2022	[ICRA]BBB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	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	Fund-based Limits	NA	NA	NA	34.00	[ICRA]BBB+(Negative)

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:

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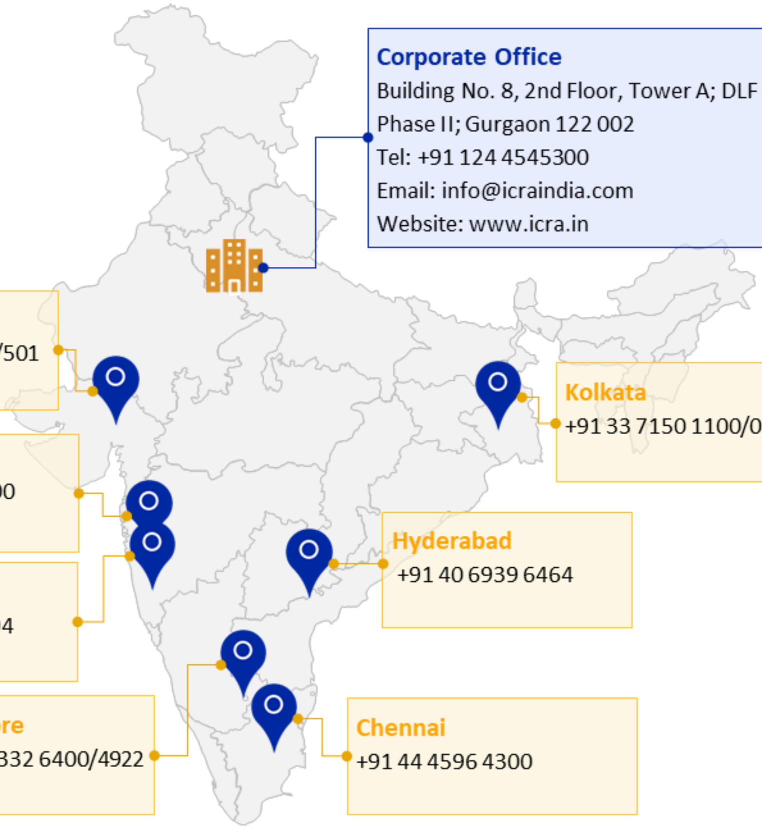

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