January 28, 2025

Minex Metallurgical Company Limited: [ICRA]A3+ Downgraded from [ICRA]A1 and removed from rating watch with negative implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Short term – Fund -based limits – Cash credit	70.00	70.00	[ICRA]A3+; downgraded from [ICRA]A1; removed from rating watch with negative implications
Short term – Interchangeable	(70.00)	(70.00)	[ICRA]A3+; downgraded from [ICRA]A1; removed from rating watch with negative implications
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure I*

Rationale

The resolution of the rating watch and the subsequent downgrade follows the completion of the demerger process of Minex Metallurgical Company Limited (MMCL), with effect from the record date of January 11, 2025, which has resulted in a significantly weakened the company's business and financial risk profile.

ICRA notes that after the demerger, the cored wire division, the flagship business of the Minex Group, has been transferred to Minex Melt Treatment Private Limited (MMTPL). This has shrunk MMCL's scale of operations retaining only the residual aluminium, ferrous and non-ferrous alloy division. It contributes 25-35% to the Group's revenues, and the standalone operating profits accounts for 10-13% to the Minex Group's operating profits of the Group, indicating a sharp decline in the entity's future earnings potential.

The rating also factors in the significant deterioration in MMCL's standalone liquidity profile following the movement of surplus treasury funds of MMCL worth Rs. 115.28 crore from Minex Group to Minex Mincast Private Limited (MMPL), as on March 31, 2024. The liquidity position is further strained by MMCL's high working capital intensity of 45% as on September 30, 2024 due to the high inventory holding period and an elongated collection cycle.

Given MMCL's small scale of operations, the company will be less resilient to periods of sustained industry downturns. Additionally, intense competition in the metallurgical alloy sector exposes the company to margin pressure, constraining its ability to maintain profitability in an adverse market scenario. However, in ICRA's view, the Minex Group (consisting of MMCL, MMTPL and MMPL), which is a leading player in the domestic cored-wire business, is expected to extend need-based financial support to MMCL out of its need to protect its reputation from a group entity's distress.

However, the rating favourably factors in MMCL's low financial leverage, which supports its credit metrics. The liquidity, despite weakening after the demerger, is expected to remain adequate, supported by undrawn bank limits of Rs. 25 crore as on September 30, 2024, absence of major capital expenditure plans and negligible debt repayment obligations.

The Stable outlook on the long-term rating reflects ICRA's view that MMCL's credit metrics and liquidity position are expected to remain comfortable, supported by calibrated capital expenditure plans, low debt service obligations and access to need-based financial support from the Minex Group.

Key rating drivers and their description

Credit strengths

Operational and managerial linkages with Minex Group; expectation of need-based financial support from group – The Minex Group is promoted by Mr. S. B. Misra, who has an experience of about five decades in the field of metals and manufacturing. The operational and managerial linkages demonstrated across its three entities - MMCL, MMTPL and MMPL – after the demerger offer comfort. ICRA notes that these three entities also have a mirror shareholding. ICRA expects the Minex Group to provide need-based financial support to MMCL out of its need to protect its reputation from a group entity's distress.

Low financial leverage and absence of long-term borrowing support credit metric - The financial risk profile of MMCL remains healthy, characterised by minimal reliance on external debt. The total outside liabilities to tangible net worth (TOL/TNW) ratio stood at 0.2x as on September 30, 2024. The low financial leverage and the absence of long-term borrowings continue to support the company's credit metrics favourably.

Credit challenges

Significant weakening of business and financial profile of the residual entity following transfer of flagship "Cored wire" business to Minex Melt Treatment Private Limited post demerger - MMCL's business risk profile has significantly weakened after the demerger due to the transfer of the cored wire business to MMTPL. The residual aluminium, ferrous and non-ferrous alloy division now contributes only 25-35% to the revenues and 10-13% to the operating profits of the Minex Group, reducing the absolute scale and profits. MMCL reported a 10% growth in its operating profits in H1 FY2025. The operating profit is expected to improve in H2 FY2025, supported by a focus on portfolio rationalisation measures such as the exit from products, customers and deals yielding low margins. However, the absolute earnings would continue to be modest.

Small scale of operations making it vulnerable in a period of sustained industry downturns - Post demerger, MMCL retained the aluminium, ferrous and non-ferrous alloy division engaged in the manufacturing of aluminium master alloy/wire rods/ferro alloys/ferro aluminium for the aluminium industry. With the master alloys contributing higher yields among the products in the company's portfolio, the capacity utilisation of aluminium alloys has been consistently improving since FY2020 in the range of 20-25%. The scope of diversification is also limited as revenue is derived from only division at Nimji. The modest scale of operations of MMCL's residual business and the limited diversification of the revenue stream make its earnings more vulnerable to the fluctuations in demand and supply in the target markets.

Significant deterioration in liquidity position following transfer of the bulk of the liquidity to Minex Mincast Private Limited – MMCL's liquidity position has deteriorated following the transfer of its surplus liquidity of Minex Group of Rs. 115.28 crore to MMPL as on March 31, 2024. While MMCL's liquidity has weakened post demerger, the presence of undrawn bank lines of Rs. 25 crore supports its standalone liquidity profile.

Highly competitive metallurgical alloy sector - MMCL faces intense competition in the metallurgical alloy sector, limiting its pricing power and putting pressure on the operating profit margins (OPM). In H1 FY2025, MMCPL reported a low operating margin of ~2.4%, which reflects high competitive pressures.

Working capital-intensive operations – MMCL's operations are working capital-intensive, with a high net working capital to operating income (NWC/OI) ratio of 45% in H1 FY2025 because of a long inventory holding period. Any further strain on the working capital, impacting the liquidity, will be a key rating monitorable.

Liquidity position: Adequate

The company's liquidity position remains adequate, supported by undrawn bank limits of Rs. 25 crore as on September 30, 2024. Additionally, it has no major capex plans or repayment obligations in the near term, which supports the free cash flows. Further, the Minex Group (comprising MMCL, MMTPL, and MMPL) is expected to provide need-based financial support to MMCL to protect its reputation.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in the company's scale of operations and profitability. The rating could also be revised upwards if the credit profile of the Minex Group improves.

Negative factors – Pressure on MMCL's rating may arise if there is any significant deterioration in its financial risk profile, putting stress on the earnings and credit metrics. The rating could also come under pressure if there is a change in the support philosophy between MMCL and the Minex Group, or if the overall credit profile of the Minex Group deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Group: The Minex Group consists of three entities – Minex Metallurgical Company Limited (MMCL), Minex Melt Treatment Private Limited (MMTPL), Minex Mincast Private Limited (MMPL) ICRA expects the Minex Group to be willing to extend financial support to MMCL, should there be a need, out of its need to protect its reputation. All the three entities within the Minex Group have mirror shareholding, which in ICRA's opinion, would further persuade the Group to provide support
Consolidation/Standalone	Standalone

About the company

MMCL was incorporated in 1981 by Mr. Sukhendu Misra. After the demerger, recorded as effective from January 11, 2025, MMCL now manufactures aluminium alloys, and ferrous and non-ferrous alloys. Its manufacturing facility is at Nimji in Nagpur, Maharashtra, with an installed capacity of 18,000 MTPA.

Key financial indicators (audited)

	Consolidated		Standalone
	FY2023	FY2024	H1FY2025^
Operating income	429.5	370.3	58.7
PAT	18.6	35.6	1.6
OPBDIT/OI	5.2%	7.2%	2.4%
PAT/OI	4.3%	9.6%	2.7%
Total outside liabilities/Tangible net worth (times)	0.1	0.2	0.2
Total debt/OPBDIT (times)	0.4	0.9	0.0
Interest coverage (times)	6.8	28.4	15.2

Source: Company, ICRA Research; ^ Provisional standalone numbers of MMCL; 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

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
						FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Jan 28, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Cash credit	Long term	-	-	-	-	-	-	-	-	Oct 12, 2021	[ICRA]A+ (Stable)
				-	-	-	-	-	-	Sep 24, 2021	[ICRA]A+ (Stable)
Interchangeable	Long term	-	-	-	-	-	-	-	-	Oct 12, 2021	[ICRA]A+ (Stable)
				-	-	-	-	-	-	Sep 24, 2021	[ICRA]A+ (Stable)
Fund based limits- Cash credit	Short term	70.00	[ICRA]A3+	Jul 17, 2024	[ICRA]A1; rating watch with negative implications	Nov 17, 2023	[ICRA]A1	Dec 01, 2022	[ICRA]A1	Oct 12, 2021	[ICRA]A1
				-	-	-	-	-	-	Sep 24, 2021	[ICRA]A1
Interchangeable	Short term	(70.00)	[ICRA]A3+	Jul 17, 2024	[ICRA]A1; rating watch with negative implications	Nov 17, 2023	[ICRA]A1	Dec 01, 2022	[ICRA]A1	Oct 12, 2021	[ICRA]A1
Fund based/Non-fund based	Short term	-	-	-	-	-	-	-	-	Sep 24, 2021	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund-based limits- Cash credit	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- Cash credit**	-	-	-	70.00	[ICRA]A3+
NA	**Short term – Interchangeable**	-	-	-	(70.00)	[ICRA]A3+

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

ANALYST CONTACTS

Girishkumar Kadam
+91 2261143441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Ritabrata Ghosh
+91 33-61143438
Ritabrata.ghosh@icraindia.com

Ruchi Hota
+91 7077102900
ruchi.hota@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches