

July 03, 2020

Minex Metallurgical Company Limited: Ratings reaffirmed

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based CC	85.00	45.00	[ICRA]A+ (Stable); Reaffirmed
Short Term – Fund Based / Non Fund Based	14.00	7.00	[ICRA]A1; Reaffirmed
Total	99.00	52.00	

[^]Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers the healthy liquidity profile of Minex Metallurgical Company Limited (MMCL), characterised by liquid investments of Rs. 98.7 crore in equity and debt mutual funds as on March 31, 2020. Going forward, the liquidity of the company is expected to remain strong as the company does not have any major capex plans and its debt repayment obligations remain negligible compared to the expected annual cash generation. However, any unanticipated deployment of these funds in illiquid instruments or towards inorganic growth may alter the company's liquidity profile and hence remains a key rating sensitivity. While the revenues of the company declined in FY2020 due to selective picking of remunerative orders, the same policy led to an improved profitability during the year. This, coupled with the company's decision to tighten its credit terms supported its overall financial risk profile. ICRA expects the revenues of the company to fall further in FY2021 due to the lockdown amid the pandemic, but its financial risk profile is expected to remain comfortable on the back of low gearing and strong coverage indicators. The ratings also favourably factor in MMCL's position as one of the leading players in metallurgical cored wire and ferro aluminium alloy segments in India. ICRA also considers MMCL's diverse customer base spread across steel and aluminium industries and across the geographies with the exports segment accounting for 38% of the operating income in FY2020.

The ratings, are, however, constrained by MMCL's weak business indicators due to modest capacity utilisation. The ratings are further constrained by MMCL's exposure to counterparty credit risks given that 3% of its receivables remaining overdue for more than 180 days as on March 31, 2020 are from financially stressed companies. However, the company's policy to reduce exposure to the financially weaker or stressed companies and provide limited credit period would mitigate the risk of potential bad debts to a large extent. ICRA also notes that intense competition within India and from China in the overseas markets exerts pricing pressure and keeps the operating profitability of the company under check. The company also remains exposed to foreign exchange risks due to a mismatch between its exports and imports.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that MMCL will continue to benefit from its established market position, healthy financial risk profile and commitment to conservative financial policies.

Key rating drivers and their description

Credit strengths

Strong liquidity position – The liquidity profile of MMCL remains healthy with unencumbered liquid investments of Rs. 98.7 crore in equity and debt mutual funds as on March 31, 2020. Nevertheless, any future deployment of these investments in illiquid instruments or towards any inorganic growth may result in a change in the liquidity profile of the company and would remain a key monitorable.

Conservative capital structure and comfortable debt-protection metrics – The total debt of MMCL, which mainly comprises working capital borrowings, stood at Rs. 21.1 crore as on March 31, 2020 against Rs. 64.4 crore as on March 31, 2019. The overall debt declined due to reduced working capital requirements of the company following its decision to tighten the credit policy. Its gearing remained low at 0.1 times as on March 31, 2020 (against 0.3 times in the previous year) due to low debt levels and high tangible net worth. The debt protection metrics strengthened in FY2020 on the back of a drastic improvement in the operating profitability and reduction in the interest cost. Interest coverage ratio improved to 14.6 times in FY2020 from 2.5 times in FY2019. The total debt-to-operating profit ratio (Total Debt/OPBDITA) stood at 0.9 times as on March 31, 2020 against 4.7 times as on March 31, 2019.

Well diversified customer base – The company's products find application in steel, foundry and aluminium industries. The company's customer base is also diversified across geographies with exports accounting for 38% of the total sales in FY2020. In the domestic market, the company has a pan-India presence. MMCL's top ten customers accounted for 48% of the total sales in FY2020.

Status as one of the leading manufacturers of metallurgical cored wire and ferro aluminium alloys in India – MMCL is one of the largest manufacturers of metallurgical cored wires and ferro aluminium alloys in India, with an installed capacity of 20,000 metric tonnes per annum (MTPA) and 18,000 MTPA, respectively. The company also has a cast iron powder division with an installed capacity of 3,600 MT.

Extensive experience of the promoter in the steel industry – The company is promoted by Mr. Sukhenda Misra, whose vast experience of over five decades in the steel industry has helped the company forge long-term relationship with various suppliers and customers across geographies.

Credit challenges

Likely impact of the lockdown on business performance in FY2021 – The Covid-19 pandemic and the consequent lockdown in Q1 FY2021 led to a sharp weakening of demand, which is likely to affect MMCL's operating performance in FY2021. ICRA expects the company's revenues and margins to decline in FY2021 compared to FY2020 levels.

Weak return indicators – While MMCL's return on capital employed (RoCE) improved to 8.6% in FY2020 from 5.1% in FY2019 on the back of improved operating profitability and better working capital management, the same remained low at an absolute level. The business return indicators of the company are unlikely to improve significantly due to margin pressure emanating from an intensely competitive nature of business.

Exposure to forex risks – MMCL imports ~50% its raw material requirements and has exports presence as well, which acts as a partial natural hedge. However, the company remains exposed to forex risks to the extent of any mismatch between its imports and exports. Nevertheless, it is to be noted that the company has not reported any major forex loss in the last four years.

Exposure to counterparty credit risks – As on March 31, 2020, ~3% of MMCL’s receivables remained overdue for more than six months. Given that such receivables are mainly from financially stressed companies, the company remains exposed to the counterparty credit risk. However, in FY2020, the company has reduced its exposure to financially stressed companies, thus limiting the possibility of write-offs. Going forward, the company’s tightened credit policy would help reduce the risk of potential bad debts.

Stiff competition in the business limits the operating profitability – The company faces intense competition from China in cored wire segment and domestic players in the alloying segment. The operating profitability improved to 8.1% in FY2020 from 4.0% in FY2019 due to increased share of high-contribution products in the sales mix, better cost control and increase in the share of exports in the total sales (through which the company also earns income from duty drawback and MEIS scheme). The operating margin is expected to remain range bound between 5.0% and 7.0% in the near term due to limited pricing flexibility and limited bargaining power with its customers.

Liquidity position: Strong

MMCL’s liquidity remains strong with unencumbered liquid investments of Rs. 98.7 crore invested in equity and debt schemes of mutual funds and free cash and bank balance of Rs. 25.0 crore as on March 31, 2020. The undrawn portion of fund-based working capital limits of ~Rs. 25.0 crore provides additional cushion to its liquidity. The company does not have any major capex plans in the near term and its repayment obligations remain negligible against the expected annual cash accruals from the business.

Rating sensitivities

Positive triggers – MMCL’s ratings may be upgraded if there is a significant increase in the scale of operations of the company or if the return on capital employed (RoCE) remains above 20% on a sustained basis.

Negative triggers – Pressure on MMCL’s ratings may arise in case of any large dividend payout or share buyback or reinvestment of liquid funds in illiquid assets. Ratings may also be downgraded if there is a prolonged lull in demand conditions, resulting in a sharp drop in revenues and profitability or if the total debt to operating profit ratio remains above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate credit rating methodology Entities in the ferrous metals industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of MMCL

About the company

Incorporated in 1981, MMCL manufactures ferro aluminium alloys, metallurgical cored wires, cored wire feeders, cast iron powder and aluminium master alloys. It has manufacturing facilities at Kalmeshwar and Nimji in Maharashtra with an installed capacity of 20,000 MTPA for metallurgical cored wire/aluminium wire, 18,000 MTPA for aluminium master alloys/aluminium wire rods, 3,600 MTPA for cast-iron powder and 40 cored wire feeders.

As per the provisional results for FY2020, MMCL recorded a net profit of Rs. 14.6 crore on an operating income of Rs. 287.0 crore. MMCL recorded a net profit of Rs. 6.0 crore on an operating income of Rs. 337.0 crore for the year ended March 31, 2019.

Key financial indicators

Standalone financials	FY2019 (A)	FY2020 (P)
Operating Income (Rs. crore)	337.0	287.0
PAT (Rs. crore)	6.0	14.6
OPBDIT/OI (%)	4.0%	8.1%
PAT/OI (%)	1.8%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	4.7	0.9
Interest Coverage (times)	2.5	14.6

Note: A: Audited Financials; P: Provisional financials; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg. (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: MMCL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					03-July-2020	03-June-2019	21-June-2018	10-May-2017
1	Fund Based CC	Long Term	45.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund Based / Non Fund Based	Short Term	7.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Fund Based - Cash Credit	-	8.5 - 11.5%	-	45.00	[ICRA]A+ (Stable)
NA	Short Term Fund Based / Non Fund Based	-	-	-	7.00	[ICRA]A1

Source: MMCL

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Rishabh Mundada

+91 22 6169 3379

rishabh.mundada@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents