

March 15, 2023

Indian Metals & Ferro Alloys Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	15.64	10.25	[ICRA]AA-(Stable); reaffirmed
Fund-based limits	435.00	685.00	[ICRA]A1+; Reaffirmed
Non-fund based facilities	120.00	150.00	[ICRA]A1+; Reaffirmed
Non-fund based facilities**	(435.00)	(685.00)	[ICRA]A1+; Reaffirmed
Untied limits	304.86	30.25	[ICRA]AA-(Stable); reaffirmed
Total	875.50	875.50	

*Instrument details are provided in Annexure-1; **100% interchangeable with corresponding fund-based limits

Rationale

The reaffirmation of the rating factors in Indian Metals & Ferro Alloys Limited's (IMFA) improved credit metrics following the meaningful deleveraging done since FY2022, supported by attractive ferrochrome spreads. The company's net debt levels fell to ~Rs.153 crore as on December 31, 2022 from ~Rs.655 crore as on March 31, 2020 leading to significant improvement in the credit metrics of the company. This is reflected by the company's net debt/OPBDITA improving to 0.3/0.4 times in 9M FY2023/FY2022 from 1.6 times in FY2021 and 4.8 times in FY2020. Notwithstanding the moderation in profits in the current fiscal, due to a contraction in ferrochrome spreads to more reasonable levels, arising from a combination of cost headwinds and correction in realisations, ICRA expects the company's credit metrics to remain comfortable, with the net debt/ OPBITDA remaining in the range of 0.5-1.0 times in FY2023P/ FY2024P. The ratings also factor in the greater visibility towards recovery of a large part of the invested capital for the Utkal-C coal block, following successful reauctioning of the block to Jindal Steel & Power Limited (JSPL) in February 2022.

The ratings continue to favourably factor in the experience of the promoters in the ferro-alloy industry and the established track record of the company as one of the largest exporters of ferro chrome from India. The ratings also consider IMFA's competitive cost structure, on a global scale, on account of the integrated nature of its operations with captive chrome ore mines and captive power plants meeting a substantial part of its requirement. The ratings also consider the company's strong liquidity profile, as reflected in the sizeable cash and liquid investment portfolio of ~Rs.146 crore as on February 28, 2023. Besides, the established relationships with domestic banks and financial institutions impart the company with considerable financial flexibility.

The ratings are, however, tempered by IMFA's exposure to the inherent cyclicality of the ferro-chrome industry. Prices of ferro chrome, which are primarily used as an input for producing stainless steel, have witnessed a considerable volatility in the past, which in turn makes IMFA's cash flows volatile as well. In addition, surplus power-generating capacity continues to be a drag on the company's return on capital employed (RoCE). The ratings also remain constrained by the execution and operational risks associated with the large-scale capex programme towards downstream greenfield ferrochrome expansion and mine development. Besides the long gestation period, the operational risks associated with the project will be heightened if the project commissioning coincides with a cyclical downturn in the sector. ICRA, however, understands that the planned capex will be largely funded through internal accruals. Any significant debt contracted to fund the capex, which weakens the coverage metrics, will be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's expectations that IMFA's credit profile will be supported by its competitive cost structure and reduced debt levels notwithstanding the weakening of ferrochrome spreads going forward.

Key rating drivers and their description

Credit strengths

Improved credit metrics following meaningful deleveraging – Healthy cash flows on account of improved ferrochrome spreads helped the company embark on a deleveraging strategy since FY2022. The company's net debt levels fell to ~Rs.153 crore as on December 31, 2022 from ~Rs.655 crore as on March 31, 2020 leading to significant improvement in its credit metrics. This is reflected by the company's net debt/OPBDITA improving to 0.3/0.4 times in 9M FY2023/FY2022 from 1.6 times in FY2021 and 4.8 times in FY2020. Notwithstanding the moderation in profits in the current fiscal due to a contraction in ferrochrome spreads to more reasonable levels, arising from a combination of cost headwinds and correction in realisations, ICRA expects the company's credit metrics to remain comfortable, with the net debt/ OPBITDA remaining in the range of 0.5-1.0 times in FY2023P/ FY2024P.

Greater visibility towards recovery of invested capital for the Utkal-C coal block – IMFA invested around Rs.375 crore towards land and surface infrastructure for the Utkal-C coal block, through its subsidiary, Utkal Coal Limited (UCL), which was deallocated by the Supreme Court in September 2014. In February 2022, the Ministry of Coal reaucted the said coal block, and the same was won by JSPL. The exact amount of the upfront payment for the Utkal-C block is yet to be calculated by the nominated authority. However, the amount invested towards land acquisition is eligible for a 12% simple rate of interest since the date of purchase. So, ICRA believes that IMFA is likely to be able to recover a sizeable portion of the invested amount, which is expected to further strengthen the company's liquidity profile. The company has already received Rs.20.69 crore in the current fiscal as part compensation towards the statutory expenses.

Long experience of the promoters; company one of the largest exporters of ferro chrome – The promoters have experience of more than five decades in operating / managing ferro-chrome plants. IMFA is one of the leading domestic producers and exporters of ferro chrome. The total installed capacity is 190 MVA across six furnaces located at two manufacturing sites in Odisha. IMFA exports ~85% of its total annual production. The long-term volume contracts that IMFA has with some of the global leaders in the stainless-steel industry, mitigate demand risks to an extent.

Competitive cost structure due to integrated nature of operations – Chrome ore and power are the two most important cost drivers of ferro-chrome producers, apart from met (metallurgical) coke. IMFA has two operational chrome ore mines with a peak annual mining capacity of ~6.5 lakh MT. Its captive power generation capacity (post de-rating of its old plant) stands at 204.5 MW. The company's integrated nature of operations, being largely self-reliant in chrome ore and power, results in a competitive cost structure. The chrome ore mines' proximity to the plants benefits the company owing to low inward freight costs. For its power unit, IMFA sources domestic coal from a mix of linkages, washery-rejects and through e-auction. The location of the plants in the coal-rich region of Odisha results in a competitive landed cost of coal. Moreover, the location of the manufacturing sites close to ports helps in controlling the outward freight cost.

Healthy free cash/bank/liquid investment portfolio and established relationships with domestic banks and financial institutions impart financial flexibility – IMFA's liquidity profile remains strong, reflected in the sizeable cash and liquid investment portfolio of ~Rs.146 crore as on February 28, 2023. The company also enjoys established relationships with domestic banks and financial institutions. As a result, it has a considerable financial flexibility.

Credit challenges

Exposure to the cyclical nature of the ferro-chrome industry results in volatile cash flows – The company remains exposed to the cyclical nature of the ferro-chrome industry. In the past, IMFA witnessed considerable volatility in cash flows following fluctuations in ferro-chrome prices. However, IMFA's status as one of the low-cost ferro-chrome producers makes it resilient to industry downcycles, when ferro chrome prices remain tepid.

Surplus power-generating capacity continues to be a drag on the company's financials – IMFA has captive thermal power plants and solar power plants of 204.5 MW capacity, leading to energy cost savings. However, the installed generation capacity is significantly higher than its internal requirements at present. Given the non-remunerative Odisha state grid tariff levels, and unavailability of coal from captive sources, as previously envisaged, following cancellation of the Utkal C block, the company has not been able to fully utilise its power generation capacity for the last few years. Such a large capital blockage, which are not generating any returns, continues to affect IMFA's overall RoCE.

Sizeable capex and associated risks – The company has announced a capex programme accumulating around Rs.1,600 crore, to be incurred over the next seven years for downstream greenfield ferrochrome expansion (~1 lakh TPA) and mine development (expansion of Sukinda's capacity from 3.51 lakh TPA to 6 lakh TPA through underground mining). The capex plans are large vis-à-vis IMFA's current balance sheet size and hence remains 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 sector. ICRA understands that the planned capex will be largely funded through internal accruals. Any significant debt contracted to fund the capex, which weakens the coverage metrics, will be a credit negative.

Environmental and Social Risks

Environmental considerations – Ferro alloy manufacturing is an energy-intensive process and requires substantial use of fossil fuels, which results in greenhouse gas emissions, industrial waste generation, and environmental pollution. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for ferro alloy manufacturers in the medium term. This in turn leads to a greater focus on reducing the carbon footprint through various technological interventions. With many of these emerging low-carbon technologies yet to achieve commercial viability, this transition could entail a significant investment for ferro alloy manufacturers. Further, the company faces risk of physical climate change from floods and drought in the form of disruption in raw material availability due to extreme weather events and impact on water availability due to drought.

Social considerations – Social risks for ferro alloy manufacturers manifest from health and safety of employees involved in the manufacturing activity. Casualties/ accidents at operating units due to gaps in safety practices could not only lead to production outages for ferro alloy manufacturers like IMFA, but also invite penal actions from regulatory bodies. The sector is exposed to labour-related risks and risks of protests/social issues with local communities, which might impact expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could hamper smooth operations of the plant.

Liquidity position: Strong

IMFA's liquidity profile remains **strong**, as reflected in the large cash balance and liquid investment portfolio of ~Rs.146 crore as on February 28, 2023 which imparts a high degree of financial flexibility to the company. Notwithstanding the large-scale capex plans announced by the company, healthy operating cash flows expected going forward along with a staggered capex programme with lower outlay in the initial years, will support the liquidity profile of the company. ICRA expects the company to be able to comfortably meet a sizeable portion of the capex commitments from internal sources and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company is able to commission the upcoming expansion project within the budgeted timeline and costs, and quickly stabilises the operations thereafter. Specific metrics that could lead to an upgrade is Net Debt/OPBDITA of less than 0.5 times on a sustained basis, following commissioning of the upcoming expansion.

Negative factors – The ratings could witness pressure if any adverse movement in realisations/ costs significantly affects margins, leading to a material deterioration of the credit metrics. Specific triggers that could lead to ratings downgrade include Net Debt/OPBDITA of higher than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	As on March 31, 2022, IMFA had three subsidiaries, a) Utkal Coal Ltd, b) IMFA Alloys Finlease Ltd, and c) Indmet Mining Pte Ltd. Out of these, Utkal Coal Ltd and Indmet Mining Pte Ltd are yet to commence operations. The operations of IMFA Alloys Finlease Ltd are not meaningful compared to IMFA's current scale. Moreover, there is no external debt in IMFA's subsidiaries. Therefore, for arriving at the ratings, ICRA has considered the standalone financials of IMFA.

About the company

Indian Metals & Ferro Alloys Limited (IMFA), promoted by Late Dr. Bansidhar Panda, was incorporated in November 1961. The company primarily produces ferro alloys, including charge chrome (high carbon ferro chrome), and has an installed furnace capacity of 190 MVA (284,000 MTPA) in its two plant sites at Therubali and Choudwar, in Odisha. The company's operations are supported by a 200-MW captive thermal power plant at Choudwar, captive chromite mines and a 4.5-MW solar power plant.

Key financial indicators

IMFA (Standalone)	Standalone		
	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (Provisional)
Operating income (Rs. crore)	1844.2	2603.0	2039.5
PAT (Rs. crore)	166.8	507.9	162.1
OPBDIT/OI (%)	18.3%	30.9%	18.1%
PAT/OI (%)	9.0%	19.5%	7.9%
Total outside liabilities/Tangible net worth (times)	1.1	0.6	-
Total Debt/OPBDIT (times)	2.0	0.6	0.7
Net Debt/OPBDIT (times)	1.6	0.4	0.3
Interest coverage (times)	5.9	13.1	6.3

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 (FY2023)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021			Date & Rating in FY2020
					Mar 15, 2023	Mar 4, 2022	Sep 27, 2021	Mar 22, 2021	Jan 25, 2021	Apr 7, 2020	May 28, 2019	
1	Term loan	Long-term	10.25	10.25	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A (Stable)	
2	Fund-based limits	Short-term	685.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	
3	Non-fund based facilities	Short-term	150.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	
4	Non-fund based facilities **	Short-term	(685.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	
5	Untied limits	Short-term	-	-	-	-	-	[ICRA]A1	[ICRA]A2+	-	-	
6	Untied limits	Long-term	30.25	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-	-	-	

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund-based limits	Simple
Non-fund based facilities	Very simple
Non-fund based facilities**	Very simple
Untied limits	NA

**100% interchangeable with corresponding fund-based 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 I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term loan	FY21	NA	FY25	10.25	[ICRA]AA-(Stable)
NA	Fund-based limits	NA	NA	NA	685.00	[ICRA]A1+
NA	Non-fund based facilities	NA	NA	NA	150.00	[ICRA]A1+
NA	Non-fund based facilities**	NA	NA	NA	(685.00)	[ICRA]A1+
NA	Untied limits	NA	NA	NA	30.25	[ICRA]AA-(Stable)

Source: Company; **100% interchangeable with corresponding fund-based limits

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Annexure II: List of entities considered for consolidated analysis – Not applicable

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