November 20, 2023

Hira Power & Steels Limited: [ICRA]A- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based Limits	30.00	[ICRA]A-(Stable); assigned
Total	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating considers over three decades of experience of the promoters of Hira Power & Steel Limited (HPSL) in the ferro alloys industry and an established customer base, which includes leading domestic steelmakers like Jindal Steel & Power Limited, Tata Steel Limited, and JSW Steel Limited, among others. The rating also factors in the company's demonstrated track record of healthy capacity utilisation level on a consistent basis and the presence of a 20-MW captive power plant at its Raipur site, which meets the major part of its overall power requirement, thus positively impacting the cost structure. The rating also considers the comfortable financial risk profile of the company, characterised by a conservative capital structure and comfortable debt coverage metrics. The financial risk profile has witnessed a steady improvement over the years, as reflected in declining debt levels and accretion to reserves. Notwithstanding the calibrated capex plans of the company, going forward, which are aimed at cost savings/efficiency improvement, ICRA expects the company to maintain its comfortable financial risk profile in the near-to-medium term, aided by steady accruals and moderate dependence on debt. The rating also positively factors in the company's high share of value-added products (low/medium carbon ferro manganese) in its product mix, which has supported higher blended realisations vis-à-vis other players in the industry. The share of such value-added products sold by HPSL stood at 38-40% during FY2021 to FY2023. The rating also factors in the doubling of capacity at the company's Vizianagaram site, which along with installation of a new CLU® converter, will enable higher production of value-added medium carbon and low carbon ferro manganese. As a result, going forward, the company is likely to witness volume growth and the share of value-added products is expected to further increase, which will support overall earnings even as the prevailing ferro alloy spreads moderate significantly from the high watermark of FY2022.

The ratings are, however, tempered by the exposure of the company to the cyclicality inherent in the steel industry given that ferro-alloys are primarily used for manufacturing of steel. Given the challenges associated with adequate domestic availability of good quality manganese ore, domestic ferro alloy manufacturers, including HPSL, depend on imported manganese ore to a large extent. This not only keeps its profitability exposed to volatility in raw material prices but also exposes the company to risks related to their timely availability. ICRA notes that given the general lead time of around two months for import of manganese ore, any downward correction in seaborne prices during this period can potentially lead to inventory losses for domestic manufacturers, including HPSL, and remains a structural disadvantage for the industry on account of the domestic ore shortage. The ratings also remain constrained by the company's dependence on costlier grid power at its Vizianagaram site in Andhra Pradesh (housed under its subsidiary company) as it does not have any captive power arrangement, thus adversely impacting the cost competitiveness of the site. ICRA notes that since April 2022, there has been a steep increase in power tariffs in Andhra Pradesh on various accounts like increase in electricity duty, introduction of maximum demand charges, levy of true-up charges and fuel supply surcharge. This in turn has affected the profitability of the Vizianagaram site. Going forward, any further tariff hike can potentially squeeze profit margins further.

The Stable outlook on the long-term rating reflects ICRA's expectations that HPSL's overall earnings, going forward, will be supported by the volumetric growth with the increase in production capacity and increase in the share of value-added products with the installation of the new CLU® converter. ICRA expects the company to maintain its comfortable financial risk profile in the near-to-medium term, aided by steady accruals and moderate dependence on debt.

Key rating drivers and their description

Credit strengths

Experienced promoters with extensive track record in the ferro-alloy industry and established relationships with customers – HPSL benefits from the extensive experience of its promoters in the ferro alloys industry, spanning over three decades. The long experience of the promoters has helped the company establish a strong customer base, which includes leading domestic steelmakers like Jindal Steel & Power Limited, Tata Steel Limited, and JSW Steel Limited among others. ICRA also notes the company's established trade relations with the clients, which enabled it to get repeat business over the years. HPSL's revenues are diversified in terms of geographical presence. Its exports account for more than 40% of its total sales on a consolidated basis.

Track record of healthy capacity utilisation and benefits arising from captive power plant – Over the years, the company has demonstrated its ability to consistently operate at healthy capacity utilisation levels, as reflected in an average utilisation of over 85% in the past four years. The company's ferro alloy operations are highly power intensive. However, power generated through its 20-MW captive power plant at its Raipur site at a competitive rate meets the major part of its overall power requirement, which positively impacts the cost structure.

High share of value-added products (low/medium carbon Ferro manganese) leads to superior products realisations – HPSL is among the few ferro alloy producers in the domestic market having the capability to produce value-added products like medium carbon and low carbon ferro manganese, which command a significant price premium over high carbon ferro alloys. The share of such value-added products sold by HPSL stood at 38-40% during FY2021 to FY2023, which has supported higher blended realisations for the company, vis-à-vis other players in the industry.

Comfortable financial risk profile and calibrated expansion plans expected to keep credit metrics at comfortable levels in the near-to-medium term – HPSL's financial risk profile remains comfortable and has witnessed a steady improvement over the years. The capital structure, as reflected by the gearing, improved to 0.18 times as on March 31, 2023 from 0.98 times as on March 31, 2018, aided by debt reduction and accretion to reserves. The coverage metrics, as reflected by the interest coverage, improved to 11.9 times in FY2023 from 1.6 times in FY2018. Notwithstanding the calibrated capex plans of the company, going forward, which are aimed at cost savings/efficiency improvement, ICRA expects the company to maintain its comfortable financial risk profile in the near-to-medium term, aided by steady accruals and moderate dependence on debt.

Doubling of capacity at Vizianagaram site, along with setting up of a new CLU® converter expected to support overall earnings, going forward, through volume growth and product enrichment – The production capacity at the company's Vizianagaram site has been doubled, thereby increasing the total capacity of the company to 1,17,000 metric tonnes per annum (MTPA) from 87,000 MTPA. Besides, the company has installed a new CLU® converter at the Vizianagaram site, which will enable production of value-added products like medium carbon and low carbon ferro manganese. As a result, going forward, the company is likely to witness volume growth and the share of value-added products is also expected to further increase, which will support overall earnings even as the prevailing ferro alloy spreads moderate significantly from the high watermark of FY2022.

Credit challenges

Highly cyclical nature of the ferro-alloy industry with complete dependence on the steel sector leads to volatility in earnings – Ferro-alloys are primarily used for manufacturing of steel, wherein manganese plays the role of a desulphuriser and deoxidiser in the steelmaking process and impart special properties such as increased resistance to abrasion, improved hardness, workability, and tensile strength. Thus, demand and realisations for ferro-alloys are dependent upon the steel industry, which is cyclical in nature, leading to high volatility in earnings.

Dependence on imported manganese ore exposes the company to risks related to timely availability and makes operating margins susceptible to volatility in seaborne manganese ore prices – Given the challenges associated with adequate availability of good quality manganese ore in local markets, domestic ferro alloy manufacturers, including HPSL, depend on imports to a large extent. The price of manganese ore, which is one of the main raw materials for HPSL, is characterised by a high degree of volatility. This exposes its profitability to volatility in raw material prices and makes the company vulnerable to risks related to timely availability. ICRA notes that given the general lead time of around two months for import of manganese ore, any downward correction in seaborne prices during this period can potentially lead to inventory losses for domestic manufacturers, including HPSL, and remains a structural disadvantage for the industry on account of the domestic ore shortage.

Dependence on costlier grid power at Vizianagaram site adversely impacts cost competitiveness; any sharp hike in tariffs can potentially hit profit margins – Given the power intensive operations of the company, power cost/tariffs play an important role in ensuring cost competitiveness for ferro alloy manufacturers. HPSL's operations at its Vizianagaram site in Andhra Pradesh (housed under its subsidiary company) do not have any captive power arrangement, necessitating dependence on costlier grid power and adversely impacting the cost competitiveness of the site. Since April 2022, there has been a steep increase in power tariffs in Andhra Pradesh on various accounts like hike in electricity duty, introduction of maximum demand charges, levy of true-up charges and fuel supply surcharge. This has affected the profitability of the Vizianagaram site. Going forward, any further tariff hike can potentially hit profit margins further.

Liquidity position: Adequate

The liquidity position of the company is **adequate** with undrawn working capital lines of ~Rs.28 crore as of end July, 2023 and healthy cash flow from operations of around Rs.65 crore expected in the current fiscal. Against these sources of cash, the company has a total capex commitment of around Rs.30 crore and debt repayment obligations of around Rs.12 crore in FY2024. ICRA expects the company to be able to comfortably meet its capex commitment and service its debt obligations and yet be left with sufficient liquidity buffer in the form of unutilised credit lines.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to demonstrate profitable operations across business cycles while maintaining comfortable liquidity and credit metrics.

Negative factors – The rating can come under pressure if a deterioration in the operating environment or any large debt funded capex leads to a weakening of the liquidity and credit metrics. Specific credit metric that can lead to a downgrade includes Total debt/ OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HPSL. As on March 31, 2023, the company had two subsidiaries and two associates, which are all enlisted in Annexure-2.

About the company

Incorporated in 1984, HPSL manufactures manganese based ferro-alloys, primarily ferro manganese. Its production facility is in Urla, Raipur (Chhattisgarh) and has an installed production capacity of 57,000 MTPA. HPSL's operations are supported by a 20-MW captive thermal power plant. Hira Electro Smelters Limited (HESL), a wholly-owned subsidiary of HPSL, also manufactures manganese based ferro-alloys, primarily ferro manganese. Its production facility is in Bobbili, Vizianagaram (Andhra Pradesh) and has an installed production capacity of 60,000 MTPA. On a consolidated basis, the total production capacity of the company is 1,17,000 MTPA. The company is promoted by Mr. O. P. Agrawal-faction of the Raipur-based Hira Group.

Key financial indicators (Audited)

Consolidated	FY2022	FY2023
Operating income	1,063.1	1,030.8
PAT	230.1	81.8
OPBDIT/OI	30.3%	12.0%
PAT/OI	21.6%	7.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.5
Total debt/OPBDIT (times)	0.4	0.7
Interest coverage (times)	20.7	11.9

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Nov 20,2023	Mar 13, 2023	Jan 17, 2023	Jan 12, 2022	Feb 15, 2021	Apr 07, 2020
1	Fund based Limits	Long term	30.00	--	[ICRA]A- (Stable)	-	-	-	-	-
2	Cash Credit	Long term		--	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Nov 20,2023	Mar 13, 2023	Jan 17, 2023	Jan 12, 2022	Feb 15, 2021	Apr 07, 2020
3	Term Loans	Long term		--	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
4	Letter of Credit	Short-Term		--	-	[ICRA]A4+ ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A4+	[ICRA]A4	[ICRA]A4
5	Forward Contract	Short-Term		--	-	[ICRA]A4+ ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A4+	[ICRA]A4	[ICRA]A4
6	Unallocated	Short-Term		--	-	[ICRA]A4+ ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A4+	[ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – 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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long Term – Fund based Limits**	NA	NA	NA	30.00	[ICRA]A- (Stable)

Source: Company

[*Please Click here to view details of lender-wise facilities rated by ICRA*]

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Hira Electro Smelters Limited	100.00%	Full consolidation
Naga Coal Mines (India) Private Limited	50.40%	Full consolidation
Dolphin Holdings & Real Estate Private Limited	30.76%	Equity method
Hira Carbonics Private Limited	22.00%	Equity method

Source: Company

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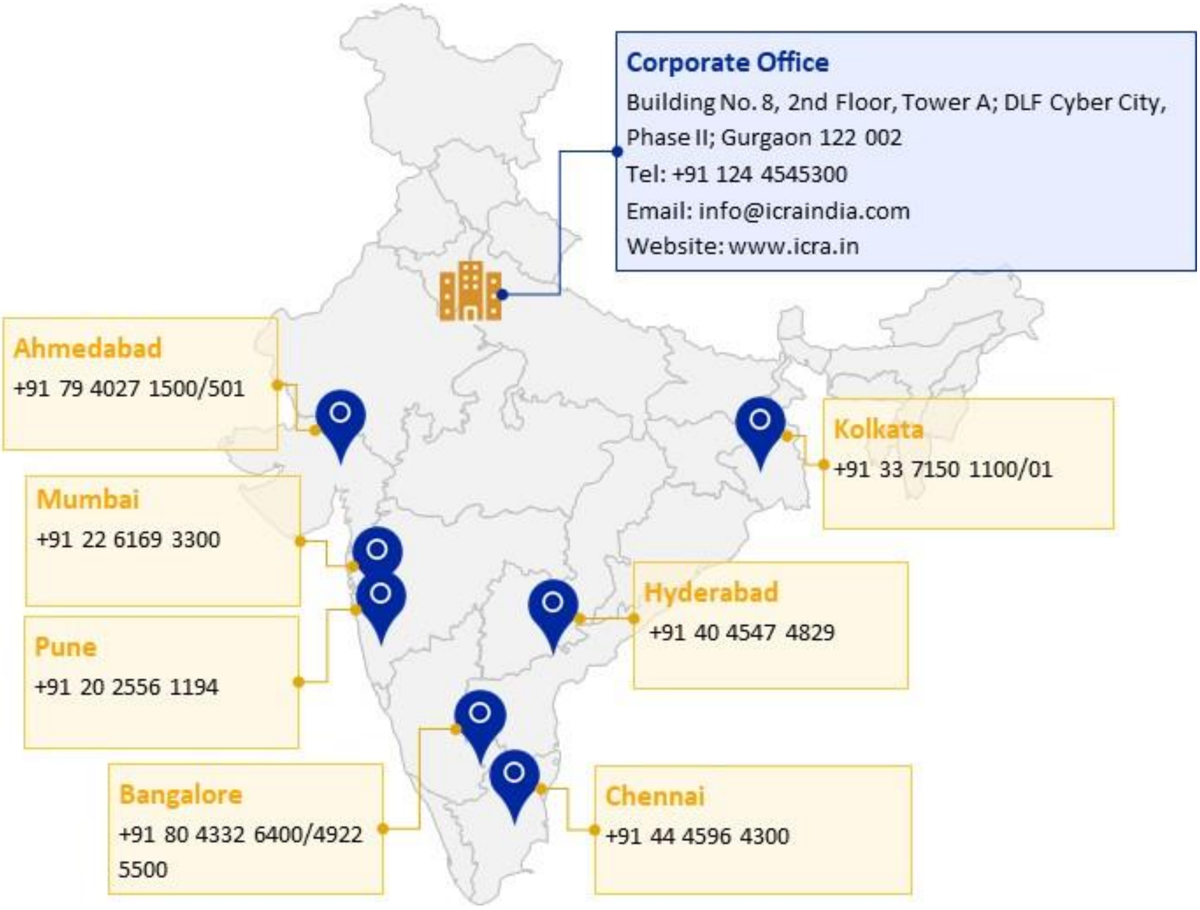

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