

Oswal Minerals Limited

January 10, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Cash credit facilities	-	30.00	[ICRA]BB (Stable); assigned
Total	-	30.00	

*Sub-limit

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) for the Rs. 30.00-crore fund-based limits of Oswal Minerals Limited (“OML”/“the company”). The outlook on the long term rating is Stable.

Rationale

The assigned rating favourably factors in the extensive experience of the promoters spanning over two decades in the ferro-alloy industry. ICRA takes into account the established network of customer and suppliers and the diversified product profile of the company with trading operations in all grades of ferro-alloys. The rating further takes into consideration the healthy scale of operations largely supported by the ability of the Oswal Group to cater to a large customer base and further support in acquiring additional customers thereby reducing customer concentration risks.

The rating is, however, constrained by OML’s highly leveraged capital structure with a gearing of 12.0 times as on March 31, 2017 on account of large unsecured debt outstanding to fund the working capital requirements and low net worth base. The rating is also constrained by the company’s thin profit margins, given the intensely competitive nature of the steel-trading business and limited value addition. In addition, the company is exposed to the cyclicity inherent in the steel industry, which keeps the profitability and cash flows volatile. The rating is further constrained by OML’s dependence on imports for procuring key raw materials which exposes it to foreign currency fluctuation risks. However, the same is mitigated by its export sales, providing a natural hedge to some extent. These apart, the ratings take into consideration the high working capital intensity due to high debtor outstanding with some of its customers.

Going forward, the company’s ability to sustain its scale of operations while improving its profitability, capital structure and coverage indicators would remain the key rating sensitivities.

Outlook: Stable

ICRA believes Oswal Minerals Limited will continue to benefit from the established customer base and the extensive experience of its promoters. The outlook may be revised to 'Positive' if considerable growth in revenue and profitability, and better accruals, strengthen the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the profitability declines further or there is further weakening in the capital structure caused by increased working capital requirements or any large debt-funded capital expenditure.

Key rating drivers

Credit strengths

Experienced management with more than two decades of experience in the ferro-alloy industry – The company was incorporated in the year 1996 and is engaged in the business of trading various ferro-alloys. The promoters are involved in the business of ferro-alloys for more than two decades, which helps the company in managing the business risks effectively.

Established network of the Oswal Group in the domestic and export market; diversified product profile – The long presence of the promoters in the industry coupled with the established network of the Oswal Group in the domestic and export markets has helped the company develop a strong customer base and establish healthy relationships with its suppliers and customers. The company has a well diversified product profile and trades in all grades of ferro-alloys such as Manganese alloys, ferro silicon, chrome alloys, noble ferro alloys etc.

Healthy scale of operations; low customer concentration risk– Even though the operating income of the company has been volatile, it has remained healthy over the years mainly on account of a large customer base and diversified ferro-alloy product profile. OML sells its products predominantly in the domestic market catering to the demand of primary and secondary steel producers. The client-concentration risk for the company remained low with the top ten customers accounting for less than 20% of the total revenue in the last three years.

Credit weaknesses

Stretched financial risk profile characterised by high gearing and weak coverage indicators – High unsecured debt from promoters and increased working capital borrowings amidst low networth has resulted in leveraged capital structure with a high gearing of 12.0 times as on March 31, 2017. The high interest cost on the borrowed funds along with thin operating margins has resulted in weak coverage indicators.

Volatility in net margins over the last two fiscals– OML registered sizeable net losses during FY2016 mainly due to weak demand situation and corresponding sharp correction in ferro-alloys prices adversely impacted the operating income. This along with fixed overheads had resulted in net losses. Nevertheless, as per trends witnessed during FY2017 and 6MFY2018, OML is expected to sustain its scale and profitability.

High working capital intensity on account of high receivables period - As on November 2017, the Company had receivables of Rs. 211.55 crore with over 650 customers and debtors outstanding over 180 days accounting for 7% of the total debtors. The recover-ability of the same remains to be seen with collection issues pending with some of the cases. Nevertheless, till date, there has not been any bad debt written-off in the past.

Highly fragmented and competitive ferro-alloy industry keeps margins under check – The ferro-alloy industry comprises numerous established and un-organized players at different levels of the value chain. In addition to intense competition, low value addition (given the trading nature of operations), keeps profitability under check.

Exposed to the cyclicity associated with the steel industry, leading to price risks – With growth of the ferro-alloy industry directly linked to the steel industry, the inherent cyclical nature of the steel industry exposes the company to adverse steel price fluctuations and inventory losses.

Susceptibility of margins to foreign exchange rate fluctuation risks, as a majority of the raw material requirement is met through imports – Historically, OML imports ~30%-45% of the total ferro-alloy requirements in the last three years from international suppliers which exposes the company to fluctuations in exchange rates. However, the same is mitigated by its export sales, providing a natural hedge to some extent.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in 1996, Oswal Minerals Limited is part of the Oswal Group of Companies and is primarily engaged in the trading of various weld-grade ferro-alloys, powders, virgin metals and Powders, Minerals, Iron Powder, Acid Grade Fluorspar and all grades of Stainless Steel Scraps etc. Headquartered in Bangalore, the company has warehouse facilities across various states in India including Hyderabad (Telangana), Visakhapatnam (Andhra Pradesh), Coimbatore (Tamil Nadu), Kolhapur (Maharashtra), Mumbai (Maharashtra), Kolkata (West Bengal) and Rajkot (Gujarat). The company is promoted by Mr. Sri. Sripal KumarJain, Mr. Mohanlal Bharath Kumar Jain and Mr. Subash Chanbd Mohanlal Jain.

The Group is involved in Ferro Alloy trading business since 1996 through its flagship company – OML and subsequently diversified into manufacturing of manganese/silicon/chrome alloys by setting-up Oswal Smelters Private Limited in 2008. Besides, the Group also does metal scrap trading through its other group company – Oswal Alloys Private Limited.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	655.0	829.3
PAT (Rs. crore)	-8.3	4.4
OPBDIT/ OI (%)	0.6%	1.9%
RoCE (%)	1.7%	7.0%
Total Debt/ TNW (times)	10.8	12.0
Total Debt/ OPBDIT (times)	37.9	14.4
Interest coverage (times)	0.4	1.5
NWC/ OI (%)	26%	29%

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				January 2018	-	-	-	
1 Fund-based facilitates	Long Term	30.00	-	[ICRA]BB (stable)	-	-	-	

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilitates	-	NA	-	30.00	[ICRA]BB (stable)

Source:OML.

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