



## Indian Metals and Ferro Alloys Limited

Instrument	Amount	Rating Action
Term Loan	Rs 850 crore (enhanced from Rs 822 crore)	Revised downwards to [ICRA]A-; outlook changed to Stable
Fund based working capital limits	Rs 327 crore (reduced from Rs 397 crore)	Reaffirmed at [ICRA]A1
Non-fund based working capital limits	Rs 63 crore	Reaffirmed at [ICRA]A1
Non-fund based working capital limits*	Rs 255 crore (reduced from Rs 325 crore)	Reaffirmed at [ICRA]A1

\*: 100% Interchangeable with a part of the fund based facilities

ICRA has downgraded the long term rating of the Rs 850 crore<sup>†</sup> term loan facilities of Indian Metals & Ferro Alloys Ltd (IMFA) from [ICRA]A (pronounced as ICRA A)<sup>†</sup> to [ICRA]A- (pronounced as ICRA A minus). The outlook on the rating has been revised from 'Negative' to 'Stable'. ICRA has also reaffirmed the short term rating at [ICRA]A1 (pronounced as ICRA A one) for the Rs 327 crore fund based working capital facilities and the Rs 63 crore non fund based working capital facilities of IMFA.

The downgrade of the long term rating takes into account the significant deterioration in IMFA's financial performance in FY15, as reflected by lower profitability and weaker debt protection metrics. In Q1FY16, the company has posted a loss of Rs. 11.04 crore, primarily because of its renewable energy purchase obligations (RPO). ICRA also notes that IMFA has substantial debt service obligations in the near to medium term, which is likely to keep debt protection metrics of both the standalone and consolidated entity under pressure, especially given the uncertainty pertaining to the timeliness and amount of compensation to be received by Utkal Coal Limited (UCL), IMFA's 79% subsidiary company, following the de- allocation of Utkal- C coal block of UCL in August 2014. As a result, IMFA would need to continue to support the debt service obligations of UCL till receipt of the compensation in ICRA's opinion. The ratings however, draw comfort from IMFA's financial flexibility derived from its large undrawn bank limits and substantial cash and bank balance as on August 31, 2015, and the reduction in interest obligation following the interest rate swap agreement entered into by the company for a substantial portion of its outstanding debt.

The rating continues to factor in the long experience of the promoters in the ferro-chrome industry, the status of the company as one of the leading domestic producers and exporters of ferro-chrome and the long term volume contracts that the company has with some of the global leaders in the stainless steel industry, which mitigates demand risks to an extent. Although, the current uncertainty pertaining to the economic outlook of China, the major consumer of ferro-chrome globally and one of IMFA's key export destinations, is likely to have an impact on international ferro chrome prices, which has been showing a declining trend since Q2FY15, the recent depreciation of the INR against the US dollar is likely to provide a support to an extent to IMFA's realisations, given that IMFA exports almost 85% of its production. The ratings continue to draw comfort from the integrated nature of operations of the company, resulting in a competitive cost structure. However, the contribution towards the District Mineral Fund (DMF) on captive chrome ore production as per the recently enacted Mines and Mineral Development Rights (MMDR) Act, 2015 would impact the overall cost structure. Additionally, IMFA's profits and cash accruals in the near term would also be impacted since IMFA would need to provide for the DMF contribution with retrospective effect from the middle of January 2015. Although some benefits are expected to accrue to the company given the decline in coal and coke prices, overall profitability is likely to remain under pressure, given the RPO of the company, following a recent judgement by the Hon'ble Supreme Court of India. In Q1FY16, IMFA made a provision of Rs. 19.98

\* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



crore for the shortfall towards RPO for 3 years upto March 31, 2015 which resulted in the company reporting a loss of Rs. 11.04 crore during the quarter. The costlier coal purchased from auctions, in the absence of captive coal would keep IMFA's power generation cost at a high level, notwithstanding the recent decline in auction coal prices. This, coupled with the low tariff being offered by the sole offtaker, i.e. the state utility, has resulted in the company keeping the 108 MW power plant idle, which continues to adversely impact its overall return on capital employed.

Going forward, the trend in ferro chrome realizations, extent of DMF contribution and the amount and timing of compensation received towards investment made in the coal block would remain key factors determining the overall risk profile of the company.

### **Company Profile**

IMFA, promoted by Dr. Bansidhar Panda, was incorporated in November 1961. The company is primarily involved in the production of ferro-alloys including charge-chrome (high-carbon ferro-chrome), and has an installed furnace capacity of 187 MVA in its two plants in Therubali and Choudwar in Odisha. The company's operations are supported by a 258 MW captive thermal power plant (at Choudwar) and captive chromite mines.

During FY15, IMFA reported a profit after tax (PAT) of Rs 11.98 crore on an operating income (OI) of Rs 1344.79 crore as against a PAT of Rs 39.12 crore on OI of Rs 1317.85 crore in FY14.

### **Recent Results**

During the period Q1 FY16, IMFA has reported a net loss of Rs 11.04 crore on an OI of Rs 340.01 crore, as against a PAT of Rs 2.00 crore on an OI of Rs 301.31 crore in the corresponding period of the previous year.

**September 2015**

*For further details please contact:*

Analyst Contacts:

**Mr. Jayanta Roy**, (Tel. No. +91-33-22876617 / 22800008)  
jayanta@icraindia.com

Relationship Contacts:

**Mr. Jayanta Chatterjee** (Tel. No. +91 33 7150 1100)  
jayantac@icraindia.com

© Copyright, 2015, 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](http://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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

1802, 18th Floor, Tower 3,  
Indiabulls Finance Centre,  
Senapati Bapat Marg,  
Elphinstone, Mumbai 400013,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Bangalore****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-  
79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills  
Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500