

January 25, 2021

Indian Metals & Ferro Alloys Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	438.00	407.46	[ICRA]A- reaffirmed; Outlook revised to Stable from Negative
Short-term- Fund Based Working Capital	347.00	314.70	[ICRA]A2+ reaffirmed
Short-term- Non Fund Based Working Capital	90.50	112.26	[ICRA]A2+ reaffirmed
Short-term- Non Fund Based Working Capital**	(347.00)	(307.50)	[ICRA]A2+ reaffirmed
Short-term Unallocated limits	-	41.08	[ICRA]A2+ reaffirmed
Total	875.50	875.50	

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

Rationale

The rating action factors in IMFA's improved performance in the first half of FY2021, which is likely to sustain in the second half as well, leading to a healthy profitability, net cash accruals and debt coverage indicators of the company in FY2021. During H1 FY2021, IMFA's operating profit margin improved by 10- percent point to reach 18.0% on the back of higher sales volume, input cost savings primarily met coke and other cost rationalisation measures undertaken by the company. The interest coverage and Net Debt/OPBDITA also remained comfortable at 5.6 times and 1.8 times (annualised) respectively in H1FY2021. With ferro chrome (FeCr) prices expected to remain firm coupled with better sales volumes, ICRA expects IMFA's operating profitability to remain healthy in H2 FY2021 as well. Healthy profitability and cash accruals have resulted in a build-up of a sizeable unencumbered cash and liquid investment portfolio of ~Rs. 123 crores as of end September 2020, which imparts financial flexibility to the company.

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 operations with captive chrome ore mines and captive power plants. The rating is, however, tempered by IMFA's exposure to the inherent cyclical nature of the ferro-chrome industry. Prices of ferro chrome, which is primarily used as an input for producing stainless steel, had witnessed considerable volatility in the past, thus impacting the profitability and cash flows of the company. In addition, surplus power generating capacity and non-return yielding investments in Utkal Coal Limited (UCL), which was developing the Utkal C block before it was de-allocated, continue to be a drag on the company's returns on capital employed (RoCE). ICRA notes that receipt of compensation for the expenses incurred for the same coal block has been further delayed, thus consequently led to delay in deleveraging, than earlier envisaged. However, considerable improvement in FeCr prices is expected to keep the profitability and debt coverage indicators at comfortable levels, going forward. ICRA thus expects the company's cash flows, supported by liquid investments, to remain comfortable relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Significant improvement in financial performance in H1FY2021 – IMFA's financial performance has witnessed a sharp improvement in H1 FY2021, driven by higher sales volume, input cost savings, primarily met coke, and other cost rationalisation measures undertaken by the company. The receipt of insurance claim for ~Rs 25 crore also supported the profits. The operating profits improved to ~Rs. 156 crore in H1 FY2021 compared to ~Rs. 67 crore in the corresponding period of the previous year. With ferro chrome prices expected to remain firm coupled with better sales volumes, ICRA expects IMFA's financial performance to remain comfortable in H2 FY2021 as well, leading to a healthy profitability, net cash accruals and debt coverage indicators of the company in FY2021.

Healthy liquid investment portfolio and established relationship with domestic banks and financial institutions - Healthy profitability and cash accruals have resulted in a build-up of a sizeable unencumbered cash and liquid investment portfolio, which stood at ~Rs. 123 at the end of September 2020. IMFA also enjoys established relationship with domestic banks and financial institutions. As a result, the company enjoys considerable financial flexibility. ICRA expects the company's cash flows, supported by its liquidity position, to remain comfortable relative to its debt service obligations.

Experience of the promoters; company one of the largest exporters of ferro chrome; volume contracts with leading global stainless-steel producers mitigate off-take risks - The promoters of the company 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 (284,000 MTPA) across six furnaces located at two manufacturing sites in Odisha. IMFA exports ~85% of its total annual production. The long-term volume contracts that the company have with some of the global leaders in the stainless-steel industry, mitigate demand risks to an extent.

Competitive cost structure on account of an integrated nature of operations both in terms of chrome ore and power - Chrome ore and power are the two most important cost drivers of ferro-chrome producers. IMFA has two operational chrome ore mines with an annual mining capacity of ~6.5 lakh MT, and 204.5 MW of power generation capacity (post de-rating of its old plant). The company's integrated nature of operations, being largely self-reliant in chrome ore and power, result in a competitive cost structure. The chrome-ore mines are located in proximity to the plants, resulting in low inward freight cost for the company. For its power unit, IMFA sources coal from a mix of linkage, washery rejects and e-auction. The location of the plants in the coal-rich region of Odisha results in a competitive landed cost of coal for the company. Moreover, the location of the manufacturing sites near a number of ports helps in controlling the outward freight cost for the company.

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 as well as in FY2020, IMFA has witnessed a considerable volatility in cash flows on the back of large fluctuations in ferro-chrome prices. However, the long-term demand outlook for stainless steel, which is the primary consumer of ferro chrome, remains favourable, notwithstanding the current year impact of Covid-19 pandemic.

Surplus power generating capacity and non-return yielding investments continue to be a drag on the company's financials - IMFA has captive thermal power plants and solar power plants of capacity accumulating to 204.5 MW, which leads to savings in energy costs. However, the installed capacity is more than 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. In addition, the company has investments of ~Rs. 375 crore in Utkal Coal Limited, a subsidiary that had been allocated the Utkal C Block, which are not yielding any returns at present. Such large capital blockage in assets, which are not generating any returns, continues to affect IMFA's overall RoCE, though supported by expected improvement on the back of healthy returns from core business operations in FY2021.

Uncertainty pertaining to the timeliness and amount of compensation to be received by Utkal Coal Limited- The rating is further weighed down by 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. ICRA notes that the allotment, which was done in FY2020, of said coal block to Gujarat State Electricity Corporation Limited has been cancelled, further accentuating the delay in receipt of compensation.

Liquidity position: Adequate

The company had cash and liquid investment portfolio of ~Rs 40 crore as at end of FY2020. Improvement in cash flows in H1FY2021 has significantly increased the unencumbered cash and liquid investment portfolio to ~Rs 123 crore as on September 2020 and ~Rs 125 crore as on December 2020. This along with headroom available in working capital facilities, estimated to be ~ Rs 50 crore, is expected to support liquidity of the company going forward. ICRA expects the company's cash flows, supported by liquid investments, to remain comfortable relative to its debt service obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a sustained improvement in profitability and debt protection metrics, going forward. Specific triggers for the upgrade would be an interest coverage over 5.0 times and net debt to OPBDITA of less than 1.5 on a sustained basis.

Negative factors – Lower than expected profits and cashflows resulting in deterioration in profitability and debt coverage indicators, could be the triggers for ratings downgrade. Specific triggers for downgrade would be an interest coverage below 4.0 times and net debt to OPBDITA of above 2.25 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	Although IMFA had four subsidiaries, as on March 31, 2020, enlisted in Annexure-2, ICRA has analysed the standalone performance as IMFA, on a standalone basis, accounts for 100% of the consolidated revenue, operating profit and debt levels.

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 plants at Choudwar, captive chromite mines and 4.5MW solar power plant

Key financial indicators (audited)

IMFA Standalone	FY2019	FY2020	H1FY2021
Operating Income (Rs. crore)	1633.8	1611.9	867.3
PAT (Rs. crore)	11.0	-70.0	68.2
OPBDIT/OI (%)	19.9%	8.6%	18.0%
RoCE (%)	6.4%	0.3%	-
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2	-
Total Debt/OPBDIT (times)	2.5	5.1	-
Interest Coverage (times)	3.4	1.4	5.6
DSCR (times)	1.4	0.5	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Jan 25, 2021	Apr 07, 2020	May 28, 2019	Dec 21, 2018	Feb 28, 2018
1	Term Loans	Long-term	407.46	431.72	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
2	Fund based bank facilities	Short-term	314.70	262.75	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Non-Fund based bank facilities	Short-term	112.26	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non-Fund based bank facilities**	Short-term	(307.50)	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Unallocated	Short-term	41.08	--	[ICRA]A2+	--	--	--	--

**100% interchangeable with corresponding fund-based limits

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 [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	Term Loan	FY2015	8.8%-11.0%	FY2028	407.46	[ICRA]A-(Stable)
NA	Short-term- Fund Based Working Capital	--	NA	--	314.70	[ICRA]A2+
NA	Short-term- Non Fund Based Working Capital	--	NA	--	112.26	[ICRA]A2+
NA	Short-term- Non Fund Based Working Capital**	--	NA	--	(307.50)	[ICRA]A2+
NA	Short-term Unallocated limits	--	NA	--	41.08	[ICRA]A2+

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	IMFA	Consolidation Approach
	Ownership	
Utkal Coal Ltd.	79.20%	Full Consolidation
IMFA Alloys Finlease Ltd.	76.00%	Full Consolidation
Utkal Green Energy Ltd.	100.00%	Full Consolidation
Indmet Mining Pte. Ltd	100.00%	Full Consolidation
PT. Sumber Rahayu Indah (Step down subsidiary- 70 % Subsidiary of Indmet Mining Pte. Ltd.		Full Consolidation

Source: IMFA annual report FY2020

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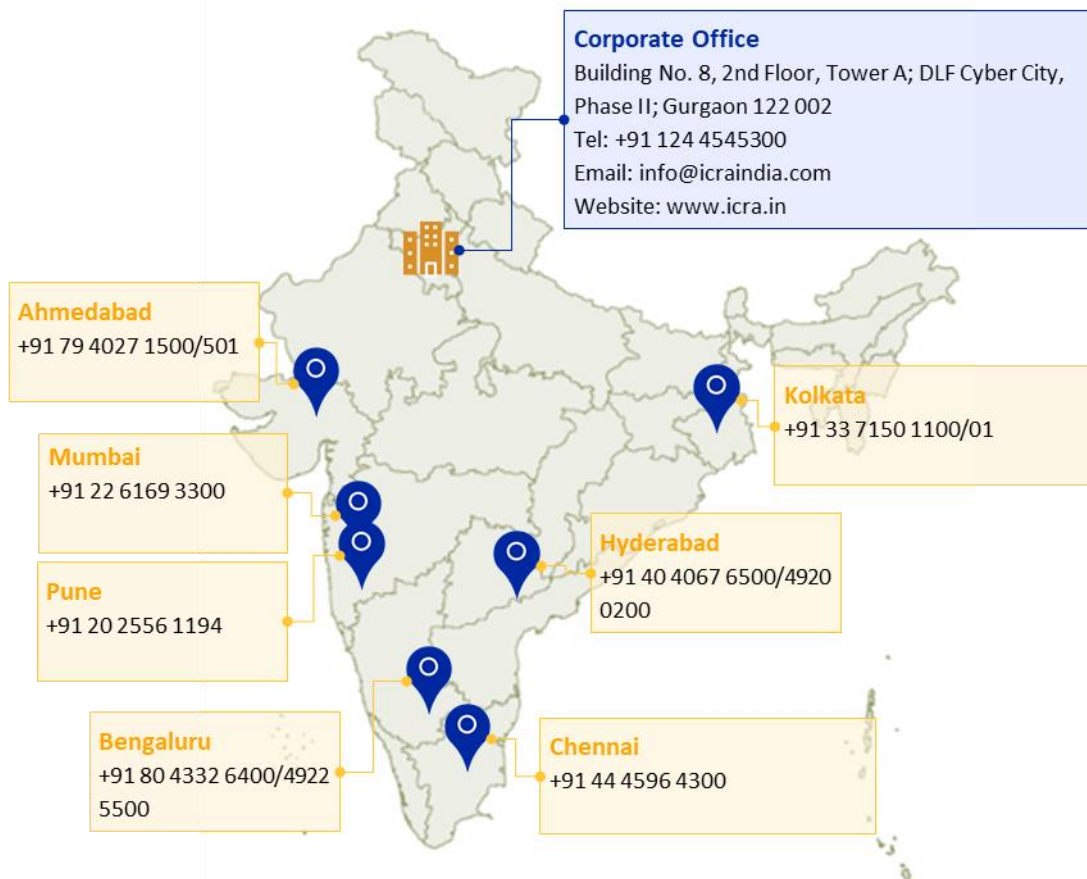


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