September 27, 2021

Indian Metals & Ferro Alloys Limited: Ratings upgraded to [ICRA]A+/[ICRA]A1+; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	407.46	347.89	[ICRA]A+; Upgraded from [ICRA]A; outlook revised to Positive from Stable
Short-term- Fund Based Working Capital	314.70	415.35	[ICRA]A1+; Upgraded from [ICRA]A1
Short-term- Non Fund Based Working Capital	112.26	112.26	[ICRA]A1+; Upgraded from [ICRA]A1
Short-term- Non Fund Based Working Capital**	(307.50)	(415.35)	[ICRA]A1+; Upgraded from [ICRA]A1
Short-term Unallocated limits	41.08	0.00	-
Total	**875.50**	**875.50**	

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

Rationale

The rating upgrade and revision in outlook factors in the better-than-expected financial performance of Indian Metals & Ferro Alloys Limited (IMFA) in FY2021, as reflected in the company's healthy revenue growth, a rise in operating profits and an improvement in the profit margins. The strong performance continued in Q1 FY2022 with the company posting its best-ever quarterly performance in the recent years with a ~35% quarter-on-quarter (QoQ) growth in the operating profits. ICRA believes that IMFA's business outlook remains favourable for the remainder of FY2022 with resilient demand for ferro chrome amid rising stainless steel production globally. Moreover, production restrictions on ferro-chrome imposed by the Chinese authorities resulted in ferro chrome realisations inching towards all-time high levels in Q1 FY2022. The company reported an OPBIDTA/tonne of Rs. 13,119 in FY2021, which further increased to Rs. 29,162 in Q1 FY2022 on the back of a sustained improvement in ferro chrome prices globally.

Met coke prices, for which the company depends on external sources entirely, have increased consistently in the recent months. However, ICRA does not expect any significant deterioration in ferro chrome spreads[1] for IMFA as ferro chrome realisations have also maintained an upward trend. In addition, IMFA's low-cost met coke inventory can cover a large part of its requirement for the current fiscal, which in turn would support IMFA's ferro-chrome spreads to remain at healthy levels in FY2022. Aided by an improvement in ferro chrome prices, the credit profile of the company witnessed a significant improvement, strengthening its credit metrics in FY2021 and Q1 FY2022. The company's net debt-to-operating profit and interest coverage improved to 1.6 times and 5.9 times, respectively in FY2021 against 4.8 times and 1.4 times, respectively in FY2020. The interest coverage further improved to above 10 times in Q1 FY2022. Healthy profitability and cash accruals are not only expected to support accelerated deleveraging in the current fiscal but would also result in a build-up of a sizeable

[1] Spreads calculated as ferro-chrome realisations less cost of chrome ore, coke, and power

cash/liquid investment portfolio, boosting the company's financial flexibility. Utilisation of free cash flows towards aggressive deleveraging initiatives will remain a key monitorable.

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 its entire requirement. 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 and non-return yielding investments in Utkal Coal Limited (UCL), which was developing the Utkal-C coal block before it was de-allocated, continues to be a drag on the company's return on capital employed (RoCE). ICRA notes that the receipt of compensation for the expenses incurred for the coal block has been further delayed, thus delaying the overall deleveraging efforts to an extent. However, remunerative ferro chrome prices are expected to keep the profitability and debt coverage indicators at comfortable levels, going forward.

Key rating drivers and their description

Credit strengths

Healthy financial performance in FY2021 and Q1 FY2022; expected to sustain for the rest of FY2022 – IMFA posted a ~14% growth in its operating revenues and a ~145% growth in its operating profits in FY2021. The strong performance continued in Q1 FY2022 as well, with the company posting its best-ever quarterly performance in the recent years with a ~35% QoQ growth in its operating profits. The improved performance was aided by a sharp rise in ferro-chrome prices globally from early CY2021 due to ferro chrome supply restrictions in China and strong downstream demand from the stainless-steel sector. The company reported an OPBIDTA/tonne of Rs. 13,119 in FY2021, which further increased to Rs. 29,162 in Q1 FY2022 on the back of a sustained improvement in ferro chrome prices globally. Additionally, ICRA believes that IMFA's business outlook remains favourable for the remainder of FY2022 with resilient demand for ferro chrome amid rising stainless steel production globally and ferro chrome realisations inching towards all-time high levels in Q1 FY2022. Met coke prices, for which the company depends on external sources entirely, have increased consistently in the recent months. However, ICRA does not expect any significant deterioration in ferro chrome spreads for IMFA as ferro chrome realisations have also maintained an upward trend. In addition, IMFA's low-cost met coke inventory can cover a large part of its requirement for the current fiscal, which in turn would support IMFA's ferro chrome spreads to remain at healthy levels in FY2022.

Aided by an improvement in ferro-chrome prices, the credit profile of the company witnessed a significant improvement in FY2021 and Q1 FY2022. The company's net debt-to-operating profit and interest coverage improved to 1.6 times and 5.9 times, respectively in FY2021 against 4.8 times and 1.4 times, respectively in FY2020. The interest coverage further improved to above 10 times in Q1 FY2022. ICRA expects IMFA's net debt-to-operating profit to further decline to around 0.2 times at the end of FY2022 owing to healthy profitability.

Experience of the promoters; company one of the largest exporters of ferro chrome – 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 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 due to 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, apart from met coke. IMFA has two operational chrome ore mines with an 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 for the company. Moreover, the location of the manufacturing sites close to ports helps in controlling the outward freight cost for the company.

Healthy free cash/bank/liquid investment portfolio and established relationships with domestic banks and financial institutions impart financial flexibility – Healthy profitability and cash accruals have resulted in a build-up of a sizeable unencumbered cash and liquid investment portfolio of ~Rs.132 crore as on March 31, 2021. The company also enjoys established relationships with domestic banks and financial institutions. As a result, the company 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 has witnessed considerable volatility in cash flows on the back of 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 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 generation capacity is significantly higher than that of 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. In addition, it has investments of ~Rs.375 crore in UCL, a subsidiary that had been allocated the Utkal-C Block, with no yields at present. ICRA notes that the receipt of compensation for expenses incurred towards Utkal-C Block is still pending[2]. Such large capital blockage, which are not generating any returns, continues to affect IMFA's overall RoCE, notwithstanding the improvement on the back of healthy returns from the core business operations seen in FY2021 and expected sustenance of the same over the near to medium term.

Liquidity position: Strong

IMFA's liquidity profile remains **strong**, as reflected in the large cash balance and liquid investment portfolio of ~Rs.132 crore as on March 31, 2021, which impart a high degree of financial flexibility to the company. Besides, with no major capex lined up over the near term, ICRA estimates that the company will generate free cash flows in the range of Rs.350-400 crore in FY2022 on the back of healthy earnings growth expected. With scheduled repayment obligations of ~Rs.90 crore in FY2022, the company will be on track to deleverage at an accelerated pace. ICRA expects the company to be able to comfortably meet its maintenance capex commitments, service its debt repayment obligations through internal sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in its profitability and debt protection metrics, going forward. Specific triggers for the upgrade would be Total Debt/OPBDITA of less than 1.0 times on a sustained basis.

[2] The earlier allotment of the said coal block in FY2020 to the Gujarat State Electricity Corporation Limited has been cancelled by the Ministry of Coal

Negative factors – Significant reversal of the industry trends, leading to a deterioration in the overall credit profile of the entity on a sustained basis, may result in ratings downgrade. Specific triggers for downgrade would be Total debt/OPBDITA above 1.5 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, 2021, IMFA has 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 is 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 (Audited)

IMFA Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1611.9	1844.2
PAT (Rs. crore)	(68.5)	166.8
OPBDIT/OI (%)	8.5%	18.3%
PAT/OI (%)	(4.3%)	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1
Total Debt/OPBDIT (times)	5.1	2.0
Interest Coverage (times)	1.4	5.9

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 (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 15, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Sep 27, 2021	Mar 22, 2021	Jan 25, 2021	Apr 7, 2020	May 28, 2019	Dec 21, 2018
1	Term Loan	Long-term	347.89	347.89	[ICRA]A+ (Positive)	[ICRA]A(Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A(Stable)	[ICRA]A(Positive)
2	Fund Based Working Capital	Short-term	415.35	-	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
3	Non Fund Based Working Capital	Short-term	112.26	-	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Non Fund Based Working Capital**	Short-term	(415.35)	-	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
5	Unallocated limits	Short-term	-	-	-	[ICRA]A1	[ICRA]A2+	-	-	-

***100% interchangeable with corresponding fund-based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Short-term- Fund Based Working Capital	Simple
Short-term- Non Fund Based Working Capital	Very simple
Short-term- Non Fund Based Working Capital**	Very simple

***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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
ICICI Bank	Term Loan	May 2014	NA	Sep 2017	192.96	[ICRA]A+(Positive)
Union Bank of India	Term Loan	May 2014	NA	Sep 2023	5.48	[ICRA]A+(Positive)
South Indian Bank	Term Loan	Jul 2014	NA	Dec 2024	21.28	[ICRA]A+(Positive)
EXIM Bank	Term Loan	Sep 2014	NA	Mar 2025	40.47	[ICRA]A+(Positive)
Canara Bank	Term Loan	Sep 2014	NA	Mar 2025	40.47	[ICRA]A+(Positive)
Indian Bank	Term Loan	Oct 2014	NA	Dec 2024	26.31	[ICRA]A+(Positive)
UCO Bank	Term Loan	Mar 2017	NA	Feb 2027	9.37	[ICRA]A+(Positive)
HDFC Bank	Term Loan	Oct 2018	NA	Nov 2024	2.69	[ICRA]A+(Positive)
Kotak Mahindra Bank	Term Loan	Dec 2020	NA	Jul 2024	6.06	[ICRA]A+(Positive)
SBI	Term Loan	Apr 2020	NA	Mar 2022	2.80	[ICRA]A+(Positive)
SBI	Fund Based Working Capital	NA	NA	NA	72.00	[ICRA]A1+
Standard Chartered Bank	Fund Based Working Capital	NA	NA	NA	65.50	[ICRA]A1+
IDBI Bank	Fund Based Working Capital	NA	NA	NA	75.00	[ICRA]A1+
ICICI Bank	Fund Based Working Capital	NA	NA	NA	60.00	[ICRA]A1+
RBL Bank	Fund Based Working Capital	NA	NA	NA	60.00	[ICRA]A1+
Unallocated	Fund Based Working Capital	NA	NA	NA	82.85	[ICRA]A1+
SBI	Non Fund Based Working Capital	NA	NA	NA	112.26	[ICRA]A1+
SBI	Non Fund Based Working Capital	NA	NA	NA	(72.00)**	[ICRA]A1+
Standard Chartered Bank	Non Fund Based Working Capital	NA	NA	NA	(65.50)**	[ICRA]A1+
IDBI Bank	Non Fund Based Working Capital	NA	NA	NA	(75.00)**	[ICRA]A1+
ICICI Bank	Non Fund Based Working Capital	NA	NA	NA	(60.00)**	[ICRA]A1+
RBL Bank	Non Fund Based Working Capital	NA	NA	NA	(60.00)**	[ICRA]A1+
Unallocated	Non Fund Based Working Capital	NA	NA	NA	(82.85)**	[ICRA]A1+

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

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@icraindia.com

Deepayan Ghosh
+91 33 7150 1220
deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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