January 27, 2022

IFGL Refractories Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit/Packing Credit	143.00	143.00	[ICRA]AA- (Stable); Reaffirmed
Untied Limits	20.00	20.00	[ICRA]AA- (Stable); Reaffirmed
Letter of Credit/Bank Guarantee	10.00	10.00	[ICRA]A1+; Reaffirmed
Letter of Credit/Bank Guarantee#	(62.00)	(62.00)	[ICRA]A1+; Reaffirmed
Total	**173.00**	**173.00**	

**Instrument details are provided in Annexure-1*

Non-fund based limits of Rs. 62.00 crore is the sub-limit to the fund-based working capital limits

Rationale

While arriving at the ratings, ICRA has considered the standalone financials of IFGL Refractories Limited (IFGL) given the management's stated intent of not providing any financial support to its overseas subsidiaries from the domestic business.

The reaffirmation of the ratings factors in the healthy financial performance of IFGL in FY2021 and H1 FY2022. Supported by a noticeable pick-up in IFGL's export revenues, the company posted a 30% YoY growth in its standalone revenues and a 96% YoY growth in its standalone operating profits in FY2021. While higher asset sweating aided the revenue growth, a significant improvement in the gross margins and operating leverage benefits aided a sharp growth in IFGL's operating profits. ICRA notes that IFGL's operating profit margins reached 20.4% in FY2021. The strong revenue momentum continued in H1 FY2022 with the company posting a 21% YoY growth. Although the operating profit margins moderated to 15.5% in H1 FY2022 from 20.4% in H1 FY2021 on the back of rising raw material costs and sea freight inflation, the financial performance remained healthy on an absolute basis. With steel production rebounding from the pandemic lows both in India and other key steel producing hubs ex-China, IFGL's business outlook remains favourable over the medium term. Additionally, with new capacities in place following the completion of its greenfield capex in Vizag and additional capacities in pipeline to be operational by the second half of FY2023, ICRA expects the company's revenue growth to be supported over the medium term. The ratings also favourably factor in IFGL's strong financial risk profile, as reflected in its conservative capital structure and strong debt coverage indicators, which are likely to continue in the near to medium term. Aided by healthy fund flow from operations and limited capex intensity, the company generated strong free cash flows over the years, which were used to strengthen its on-balance sheet liquidity. Consequently, IFGL's liquidity position remained strong over the years, as reflected in a large free cash/bank/liquid investment portfolio. Moreover, ICRA notes that the net debt (total debt less cash and liquid investments) of the company remained negative as on March 31, 2021 and September 30, 2021, which is likely to continue in the near to medium term. The ratings also factor in the extensive experience of the promoters and established track record of operations in the refractory business, which ensure repeat business. The ratings further factor in the company's strong customer base and long-term relationships with several of its key clients and its diversified revenue base across multiple geographies and customers, which partly reduces the downside risks arising from region/customer-specific demand concerns.

The ratings, however, continue to be constrained by the exposure of the company to the cyclicality inherent in the steel industry as it derives most of its revenues from sales to the steel companies. Moreover, the pricing power of the refractory players, including IFGL is limited owing to intensifying competition from large and established global refractory manufacturers which along with its limited bargaining power with established customers, restricts the company's pricing flexibility. The ratings also factor in IFGL's exposure to fluctuations in supply and prices of raw materials as it imports a large portion of its raw materials from China. While IFGL's long-term relationships resulted in stable supply linkages, any disruption in supply may result in an increase in raw material prices, going forward, impacting the company's profitability.

The Stable outlook on the long-term rating reflects IFGL's established position in the flow-refractory segment, which along with its efficient cost structure and prudent capital management are expected to keep its credit metrics at comfortable levels, going forward.

Key rating drivers and their description

Credit strengths

Healthy financial performance in FY2021 and H1 FY2022; healthy demand prospects and enhanced capacities likely to support medium-term revenue growth – Supported by the noticeable pick-up in IFGL's export revenues, the company posted a 30% YoY growth in its standalone revenues and a 96% YoY growth in its standalone operating profits in FY2021. While higher asset sweating aided the revenue growth, a significant improvement in the gross margins and operating leverage benefits aided a sharp growth in operating profits. ICRA notes that IFGL's operating profit margins reached 20.4% in FY2021. The strong revenue momentum continued in H1 FY2022 with the company posting a 21% YoY growth. Although the operating profit margins moderated to 15.5% in H1 FY2022 from 20.4% in H1 FY2021 on the back of rising raw material costs and sea freight inflation, the financial performance remained healthy on an absolute basis. With steel production rebounding from the pandemic lows, both in India and other key steel producing hubs ex-China, IFGL's business outlook remains favourable over the medium term. Additionally, with new capacities in place following the completion of its greenfield capex in Vizag and additional capacities in pipeline to be operational by the second half of FY2023, ICRA expects the company's revenue growth to be supported over the medium term.

Extensive experience of promoters and established track record of operations in the refractory business – The company is promoted by the S. K. Bajoria Group of India and Krosaki Harima Corporation of Japan, a global leader in the refractories business. Vast experience of the management and the company's established track record of close to three decades of operations in the refractory manufacturing business, help IFGL to remain competitive in the market. Further, repeat orders from reputed customers highlight the technical competence of IFGL and the confidence that it has gained from its customers. On a consolidated basis, IFGL's operations are spread across China, Germany, India, the UK and the US through its various step-down subsidiaries. However, ICRA observes that no financial support has been extended by the standalone domestic operations to its overseas subsidiaries.

Conservative capital structure and strong debt coverage indicators; net debt continues to remain negative – The capital structure of the company has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. IFGL's coverage indicators continued to remain strong on account of healthy profits as well as cash accruals and low debt level. With a rise in profits and cash accruals from business, the coverage indicators have also improved, as reflected by an interest coverage of 34.1 times (16.1 times in FY2020) and net cash accruals relative to the total debt of 294% (147% in FY2020) in FY2021. Notwithstanding the likely moderation in the profit margins due to input cost increases and sea freight inflation in the current fiscal, the absolute profits are expected to remain robust backed by healthy revenue growth, resulting in strong debt coverage indicators, going forward. Moreover, ICRA notes that the net debt (total debt less cash and liquid investments) of the company remained negative as on March 31, 2021 and September 30, 2021, which is likely to continue in the near to medium term.

Strong customer profile and geographical diversification of revenues – The company has a strong customer profile, which includes several large steel manufacturing companies in the domestic and overseas markets, while enjoying long-term relationships with several of its key clients. The company's customer profile remains well diversified with its top five customers driving 30-35% of its total sales. IFGL's revenues are diversified in the domestic and overseas markets. Its exports account for

55-60% of its total sales. Access to overseas markets insulates IFGL's revenue profile from demand fluctuations in the domestic market and provides higher growth opportunities.

Credit challenges

Intense competition in the industry – The pricing power of the refractory players, including IFGL, is limited owing to intense competition from large and established global refractory manufacturers. Besides, limited bargaining power of the company with its established customers, restricts the company's pricing flexibility.

Exposure to fluctuations in supply and prices of raw material prices – The company imports a large portion of its raw materials (like zirconia and aluminium oxide) from China. While IFGL's long-term relationships resulted in stable supply linkages, any disruption in supply may result in an increase in raw material prices, going forward, impacting the profitability of the company.

Exposure to cyclicality inherent in the steel industry – IFGL is exposed to the cyclicality inherent in the steel industry as it derives most of its revenues from sales to the steel companies. Although the outlook of the steel industry remains favourable at present, IFGL is exposed to the volatility of the industry.

Liquidity position: Strong

IFGL's liquidity profile remains **strong**, as reflected in the large free cash balance and liquid investment portfolio of around Rs.112 crore (on a standalone basis) as on September 30, 2021, which impart a high degree of financial flexibility to the company. Low utilisation of working capital limits, absence of long-term debt, along with expected stable cash flows from operations would support IFGL's overall liquidity profile, going forward. ICRA expects the company to be able to comfortably meet its near-term capex commitments through internal accruals and yet be left with a sufficient cash surplus.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to significantly scale up its operations while maintaining comfortable credit metrics and a strong liquidity profile while further diversifying its product profile across various refractory sub-segments.

Negative factors – Pressure on IFGL's ratings may arise if there is a significant drop in profitability, an increase in the working capital intensity of operations and/ or any substantial debt-funded capital expenditure/investment. Specific credit metrics that could result in ratings downgrade is Net Debt/ OPBDITA greater than 1.5 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 standalone financials of IFGL.

About the company

IFGL Refractories Limited (IFGL, formerly known as IFGL Exports Limited) is a Kolkata-based Indian multinational company. IFGL was merged with its subsidiary, IFGL Exports Limited, with effect from April 1, 2016, which was involved in the manufacturing of continuous casting refractories at Kandla, Gujarat. Subsequently, the name of IFGL Exports Limited was changed to IFGL Refractories Limited with effect from October 25, 2017. IFGL Refractories Limited was promoted by S. K. Bajoria Group (56.92%), India and Krosaki Harima Corporation (15.51%), Japan, a subsidiary of Nippon Steel Corporation, in 1993. The company manufactures specialised refractories and requisite operating systems for flow control in steel teeming and continuous casting of steel.

Key financial indicators (Audited)

IFGL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	494.17	641.11
PAT (Rs. crore)	29.73	44.83
OPBDIT/OI (%)	13.6%	20.4%
PAT/OI (%)	6.0%	7.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.5	0.3
Interest Coverage (times)	16.1	34.1

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 Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 27, 2022	Jan 5, 2021	Jan 2, 2020	-
1	Cash Credit/Packing Credit	Long Term	143.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	-
2	Untied Limits	Long Term	20.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	-
3	Letter of Credit/Bank Guarantee	Short Term	10.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Letter of Credit/Bank Guarantee#	Short Term	(62.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Non-fund based limits of Rs. 62.00 crore is the sub-limit to the fund-based working capital limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit/Packing Credit	Simple
Untied Limits	NA
Letter of Credit/Bank Guarantee	Very 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, is available on ICRA's 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	Cash Credit/Packing Credit	NA	NA	NA	143.00	[ICRA]AA- (Stable)
NA	Untied Limits	NA	NA	NA	20.00	[ICRA]AA- (Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	10.00	[ICRA]A1+
NA	Letter of Credit/Bank Guarantee#	NA	NA	NA	(62.00)	[ICRA]A1+

Source: *Company; # Non-fund based limits of Rs. 62.00 crore is the sub-limit to the fund-based working capital limits*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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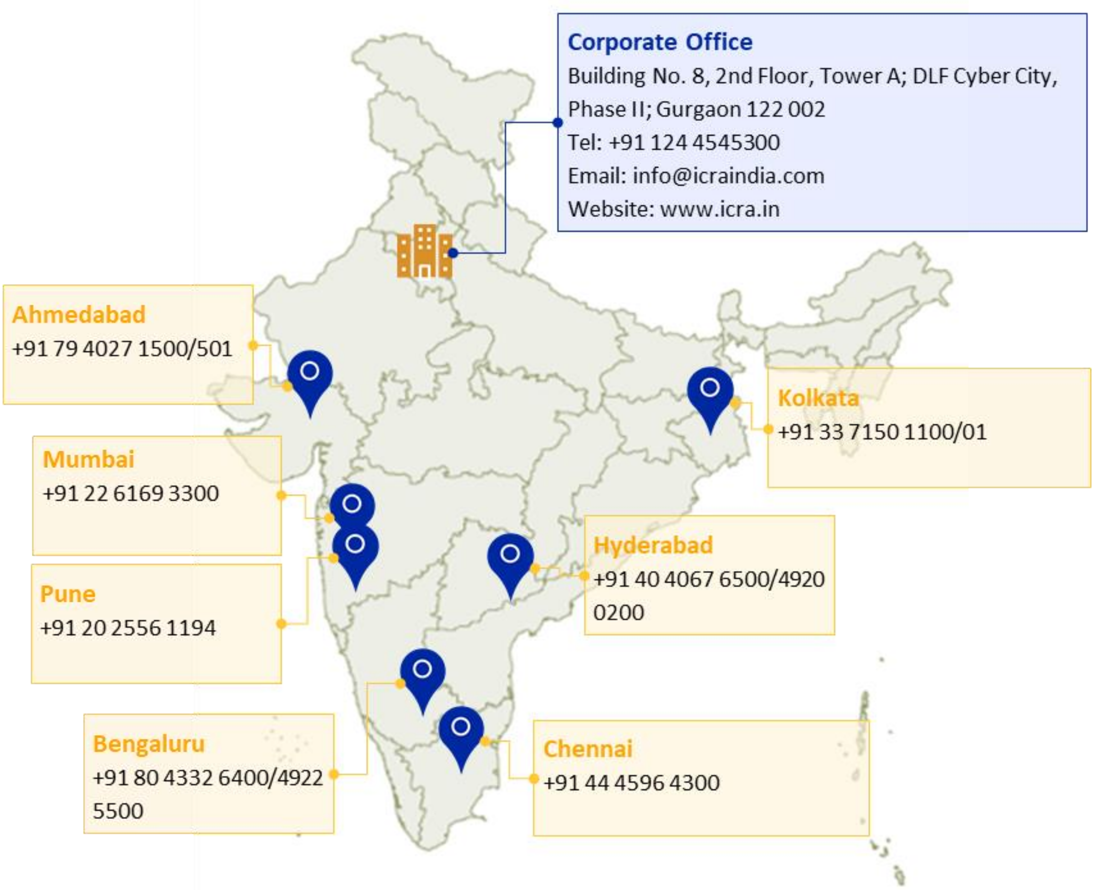

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