July 04, 2022

ISMT Limited: [ICRA]A-(Stable)/[ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. In Crore)	Rating Action
Long-term/short-term-fund-based/non-fund based proposed limits	600.00	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Total	**600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in ISMT Limited's (ISMT) status as one of the leading integrated specialised seamless tube manufacturers in India and its diversified customer base. In March 2022, Kirloskar Ferrous Industries Limited (KFIL; rated [ICRA]AA(Negative)/[ICRA]A1+) acquired 51.25% stake in ISMT through preferential allotment of equity shares for a consideration of Rs. 476 crore. KFIL also extended unsecured loan of Rs. 194 crore to ISMT. The total amount of Rs. 670 crore was utilised to settle the dues of bankers worth ~Rs. 3,500 crore. ISMT is likely to benefit from strong reputation of Pune-based Kirloskar Group and its proven management track record. Following the one-time settlement with the lenders, ISMT's net worth has turned positive, enabling it to participate in various public sector undertaking (PSU) tenders as well as avail funding lines from the banks. These measures would facilitate scaling up of revenues and reducing the cost of procurement. ISMT's management has also identified several efficiency improvement and cost-reduction measures aimed towards reducing high power expenses and improving profitability. To meet any cashflow mismatches during the ramp up phase, ICRA expects KFIL to provide need-based funding support to ISMT.

ISMT's ability to ramp up its operations by increasing its capacity utilisation levels, improve profitability by successfully implementing various cost-reduction measures and achieve the desired operating parameters remain key monitorable. Additionally, the company remains exposed to the inherent cyclicality in the steel industry, which may lead to volatility in its profits and cash flows. Besides, the company's profits are exposed to volatility in the prices of key raw materials such as pig iron, sponge iron, scrap, among others.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that the ISMT will benefit from the strong parentage as well as its leading presence in the seamless tubes segment in India.

Key rating drivers and their description

Credit strengths

Strong new parentage – KFIL took over the management control of ISMT by acquiring 51.25% stake in March 2022. KFIL is a part of the reputed Pune-based Kirloskar Group and is one of the leading players in pig iron and ferrous casting segment. KFIL invested Rs. 476 crore in ISMT by way of preferential allotment of equity shares, in addition to providing Rs. 194 crore of unsecured loans. These were utilised to settle the dues to erstwhile lenders. ISMT is likely to benefit from strong reputation and financial flexibility of KFIL, besides the extensive experience of its management team. ICRA also expects KFIL to extend need-based financial support to ISMT to meet any cashflow mismatches during the ramp up phase.

One of the largest seamless tube manufacturers in India; diversified customer base – ISMT is among the largest seamless tubes manufacturers in India. It has tube manufacturing facilities in Ahmednagar and Baramati (Maharashtra) with a combined capacity of 3,71,000 metric tonnes per annum (MTPA). Its operations are integrated so that the company manufactures steel required for production of seamless tubes. Besides, it procures steel from external sources. ISMT's product profile is diversified as it produces seamless tubes in the range of 6 to 273 mm diameter. ISMT has customers in the automobile, bearing, power, oil and gas, boiler, general engineering, and hydraulic segments among others. ISMT's top-10 customers account for only 20-30% the total sales each fiscal, reflecting a diversified customer base. ISMT also has presence in the export markets. Exports accounted for around 9% of total sales in FY2022. With easy availability of finance and management's focus to revive exports, the share of exports is expected to increase, going forward.

Improved financial profile – KFIL acquired ISMT in March 2022 by infusing a total sum of Rs. 670 crore (Rs. 476-crore equity and Rs. 194-crore unsecured loans). ISMT's debt of ~Rs. 3,500 crore was settled for Rs. 670 crore and the balance amount were written back. With the said writeback of loans, ISMT's net worth also turned positive as on March 31, 2022. ISMT is now eligible to participate in the tenders of various public sector undertaking (PSU) companies. Along with the expected availability of bank lines, this is expected to increase its revenues and profitability, strengthening the financial profile.

Credit challenges

Thin margins, ability to improve profitability is a key rating monitorable – ISMT's operating profit margins (OPMs) have remained thin in the range of 2-6% in the past due to financial stress. The management of ISMT has identified several measures like productivity improvements including use of alternative fuel, setting up 50-megawatt (MW) solar plant, among others which will help reduce the power costs and improve profits. With an increase in revenues, ISMT will also benefit from the operating leverage. ISMT's ability to ramp up its operations by increasing capacity utilisation levels, improve profitability by reducing its power costs and achieve the desired operating parameters would be key monitorable, going forward.

Vulnerability to cyclicality associated with the end-user industries – The company's operations are vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as automobile, bearing, oil and gas, among others. The cyclicality inherent in these sectors may lead to volatility in the company's profits and cash flows.

Exposure to volatility in raw material prices – The company's profitability remains exposed to volatility in the prices of key raw materials like pig iron, sponge iron, scrap etc. ICRA notes that ISMT is focusing to increase the share of value-added products in its portfolio, which will aid in margin expansion, going forward.

Liquidity position: Adequate

ISMT's liquidity position is **adequate** supported by free cash and bank balance of Rs. 52.4 crore as on March 31, 2022. With the expected availability of bank lines and consequent increase in revenues and profits, the liquidity position of ISMT is likely to improve. The company does not have any external debt in its books at present. The company does not have any major capital expenditure (capex) plans in FY2023 apart from the routine capex of Rs. 30-40 crore. In FY2024, ISMT plans to set up a 50-MW solar plant at a total cost of around Rs. 175-200 crore, which will be funded by a mix of debt and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ISMT's ratings if it demonstrates a substantial growth in revenues and profitability and improves its liquidity position while maintaining its capital structure. Additionally, ICRA could upgrade ISMT's ratings if there is an improvement in the credit risk profile of the parent company, KFIL.

Negative factors – Pressure on the ratings could arise if there is a deterioration in the earnings or a stretch in the working capital cycle or a large debt-funded capex adversely impacts ISMT's financial risk profile and the liquidity position. The total debt-to-operating profit ratio remaining above 2.3 times on a sustained basis would be a negative factor. A deterioration in the credit risk profile of the parent company may also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Rating Approach – Implicit Parent or Group Support
Parent/Group Support	Parent - Kirloskar Ferrous Industries Limited (rated [ICRA]AA(Negative)/[ICRA]A1+) To meet any cashflow mismatches during the ramp up phase, ICRA expects KFIL to provide need-based funding support to ISMT.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ISMT, which include 10 subsidiaries (as per annexure 2).

About the company

Incorporated in 1977, ISMT manufactures seamless tubes, alloy and carbon steel rounds and billets. It is among the largest specialised seamless tube manufacturers in India. It has three manufacturing plants, one each in Jejuri (steelmaking facility), Baramati and Ahmednagar (tube manufacturing). Its current tube manufacturing capacity is 3,71,000 MTPA and steelmaking capacity is 3,50,000 MTPA. The company's products find application in various industries including automobile, bearings, forging, oil and gas, boilers, hydraulic segments, among others. In March 2022, KFIL acquired a 51.25% stake in ISMT and took over its management control.

Key financial indicators (Consolidated)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	1,283.4	2,173.2
PAT (Rs. crore)	(342.5)	2,374.1
OPBDIT/OI (%)	1.4%	3.4%
PAT/OI (%)	(26.7%)	109.2%
Total Outside Liabilities/Tangible Net Worth (times)	(2.2)	0.5
Total Debt/OPBDIT (times)	202.3	2.9
Interest Coverage (times)	0.1	5.1

Source: ISMT; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					04-Jul-2022	-	-	-
1	Fund-based/Non-fund-based proposed facilities	Long-term/ Short-term	600.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund-based proposed facilities	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	Proposed fund-based / non-fund-based facilities	-	-	-	600.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure - 2: List of entities considered for consolidated analysis

Sr.	Entity Name	Consolidation Approach
1	ISMT Limited	Full consolidation
2	ISMT Enterprises SA	Full consolidation
3	Structo Hydraulics AB	Full consolidation
4	ISMT Europe AB	Full consolidation
5	Indian Seamless Inc	Full consolidation
6	Tridem Port and Power Company Private Limited	Full consolidation
7	Nagapattinam Energy Private Limited	Full consolidation
8	PT ISMT Resources	Full consolidation
9	Best Exim Private Limited	Full consolidation
10	Success Power and Infraprojects Private Limited	Full consolidation
11	Marshall Microware Infrastructure Development Company Private Limited	Full consolidation

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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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