

December 27, 2022

ISMT Limited: Change in rated limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term fund-based/non-fund-based proposed limits	600.00	-	-
Long-term fund-based limits	-	145.00	[ICRA]A-(Stable); outstanding
Short-term non-fund-based limits	-	385.00	[ICRA]A2+; outstanding
Long-term/short-term unallocated limits	-	70.00	[ICRA]A-(Stable)/[ICRA]A2+; outstanding
Total	600.00	600.00	

*Instrument details are provided in Annexure-1

Rationale

The outstanding 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(Stable)/[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 turned positive, which enabled it to participate in various public sector undertaking (PSU) tenders as well as avail funding lines from the banks. These measures facilitated 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 cyclicity 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.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description and rating sensitivities: [Click here](#)

Liquidity position: Adequate

ISMT's liquidity position is **adequate**, supported by free cash and bank balance of Rs. 92.7 crore as on September 30, 2022. Given the improvement in revenues and profitability, ISMT's cash flows are expected to improve in FY2023 and FY2024. The company has been sanctioned working capital limits of Rs. 530 crore by the banks (Rs. 145 crore fund based and Rs. 385 crore non-fund based). ISMT's fund-based working capital limits of Rs. 145 crore (with adequate drawing power) largely remain unutilised which provide cushion to the liquidity. Besides maintenance capex of Rs. 30-40 crore per annum, ISMT has announced capex plan of Rs. 305 crore to set up a 70-MW solar power plant in FY2024.

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(Stable)/[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 financials	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Reported*)
Operating Income (Rs. crore)	1,283.4	2,173.2	1,331.7
PAT (Rs. crore)	(342.5)	2,374.1	50.4
OPBDIT/OI (%)	1.4%	3.4%	7.2%
PAT/OI (%)	(26.7%)	109.2%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	(2.2)	0.5	0.5
Total Debt/OPBDIT (times)	202.3	2.9	1.2
Interest Coverage (times)	0.1	5.1	6.7

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
All ratios as per ICRA calculations; *based on limited review of auditor

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. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Dec 27, 2022	July 04, 2022			
1 Fund-based/Non-fund-based proposed facilities	LT/ST	-	-	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
2 Long-term fund-based limits	LT	145.00	-	[ICRA]A-(Stable)	-	-	-	-
3 Short-term non-fund-based limits	ST	385.00	-	[ICRA]A2+	-	-	-	-
4 Long-term/short-term unallocated limits	LT/ST	70.00	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-	-

Amount in Rs. crore; LT – Long-term; ST – Short-term

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Short-term non-fund-based limits	Very Simple
Long-term/short-term unallocated limits	Not Applicable

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 analyzing 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: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	Fund-based limits	-	-	-	145.00	[ICRA]A-(Stable)
NA	Non-fund-based limits	-	-	-	385.00	[ICRA]A2+
NA	Unallocated limits	-	-	-	70.00	[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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