July 20, 2023(Revised)

ISMT Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term – Fund-based Limits	145.00	145.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Long-term – Fund-based Term Loan	-	150.00	[ICRA]A(Stable); assigned
Short-term – Non-fund-based Limits	385.00	410.00	[ICRA]A1; upgraded from [ICRA]A2+
Long-term/Short-term – Unallocated Limits	70.00	45.00	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	**600.00**	**750.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers better-than-expected performance of ISMT Limited (ISMT) in FY2023, led by healthy revenue growth and a significant improvement in the profit margin, which has strengthened the overall financial profile and likely sustenance of healthy credit metrics in FY2024 on the back of focus on value-added/high-margin products and various cost and efficiency optimisation measures to be undertaken by the company. Post management takeover by Kirloskar Ferrous Industries Limited (KFIL; rated [ICRA]AA(Stable)/[ICRA]A1+) and one-time settlement with lenders in March 2022, ISMT's operating and financial performances recovered in FY2023, supported by availability of bank lines, which facilitated smooth trade and led to improved order inflows. Besides, the company undertook several cost-saving and efficiency improvement initiatives, which, along with the benefit of operating leverage, led to margin expansion. Additionally, the company plans to incur capital expenditure (capex) towards debottlenecking activities, efficiency improvement initiatives and cost-saving projects (including setting up a solar power plant to reduce power cost) involving an outlay of ~Rs. 430 crore in FY2024 (partly debt-funded) and ~Rs. 230 crore in FY2025. ICRA also notes that the proposed merger of ISMT into KFIL (which is subject to regulatory and other approvals) is likely to benefit the combined entity in terms of increased scale of operations, vertical integration, expanded reach and product diversification, among others.

The ratings continue to factor in ISMT's status as one of the leading integrated and specialised seamless tube manufacturers in India and its diversified customer base. ISMT benefits from its strong parentage and reputation of Pune-based Kirloskar Group and its proven management track record. ISMT also enjoys healthy financial flexibility for being a subsidiary of KFIL and its stated intent to provide need-based funding support to ISMT.

The ratings are, however, constrained by ISMT's exposure 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 company's operations also remain vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as automobile, bearing, oil and gas, among others.

ICRA takes note of the Serious Fraud Investigation Office's (SFIO) ongoing case against the erstwhile promoters of ISMT. As confirmed by the management, ISMT is only a proforma respondent here and the same is unlikely to have any adverse implication on the company. ICRA will continue to monitor developments in this regard.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectations that ISMT's credit profile will remain adequately supported by healthy order inflows and steady improvement in margins, supported by its focus on better product mix and various cost efficiency measures being undertaken by the company.

Key rating drivers and their description

Credit strengths

Strong parentage – KFIL took over the management control of ISMT by acquiring a 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. ISMT benefits from the strong reputation and financial flexibility of KFIL, besides the extensive experience of its management team. ISMT also enjoys healthy financial flexibility for being a subsidiary of KFIL and its stated intent to provide need-based funding support to ISMT. In November 2022, the Board of Directors of KFIL and ISMT approved the scheme of arrangement and merger of ISMT into KFIL. The merger (subject to regulatory and other approvals) is likely to benefit the combined entity in terms of increased scale of operations, vertical integration, expanded reach, and product diversification, among others.

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) and steel-making facility in Jejuri (Maharashtra) with a capacity of 3,50,000 MTPA. Its operations are integrated so that the company manufactures steel required for production of seamless tubes. Besides, it procures steel from external sources. All the manufacturing facilities are in the vicinity to each other, which leads to savings in transportation costs for the company.

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% of the total sales each fiscal, reflecting a diversified customer base. ISMT also has a presence in the export markets, which accounted for 9-10% of revenues in FY2023.

Turnaround in company's performance in FY2023 – Post management takeover by KFIL and one-time settlement with lenders in March 2022, ISMT's operating and financial performance recovered, supported by availability of bank lines (which facilitated smooth trade and led to improved order inflows). This also enabled the company to reduce its cost of procurement. Besides, the company undertook several efficiency improvement and cost-saving initiatives which along with the benefit of operating leverage helped it in margin expansion. In FY2023, ISMT reported revenues of Rs. 2,585 crore, reflecting a 19% YoY growth (aided by higher volumes and sales realisations) and its operating profit margin increased to 8.6% from 3.5% in FY2022. Its credit metrics also strengthened, as reflected in its total debt-to-operating profit ratio of 0.4 times as on March 31, 2023 (P.Y. 2.8 times) and interest cover of 10.2 times in FY2023 (P.Y. 5.7 times). ICRA expects sustenance of healthy credit metrics in FY2024 on the back of focus on value-added/high margin products, debottlenecking activities and various cost and efficiency optimisation measures to be undertaken by the company (including setting up a solar power plant to reduce power cost).

Credit challenges

Large capex plans – The company has huge capex plans of ~Rs. 430 crore in FY2024 (partly debt-funded) towards setting up a solar power plant, cost saving and efficiency improvement projects, debottlenecking activities and ~Rs. 230 crore in FY2025 towards capacity expansion and cost saving projects. The company's ability to achieve the desired benefits and improve its overall operating performance from the above-mentioned capex plans remains monitorable.

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. Nevertheless, ICRA notes that ISMT's revenue mix is well diversified across sectors such that dependence on a particular sector is limited.

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 and high-margin 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. 27.3 crore as on March 31, 2023, and largely undrawn fund-based bank limits (sanctioned lines of Rs. 145 crore with adequate drawing power). Given the expectation of continued healthy revenue growth and improvement in profitability, going forward, ISMT's cash generation is expected to improve, which will be largely deployed towards working capital and capex requirements and hence the dependence on debt is expected to be limited. The company's average utilisation of non-fund-based limits of Rs. 385 crore stood at around 53% during the eleven-month period ended in May 2023. The company has letter of credit (LC) repayment obligations of Rs. 73 crore in July 2023 and Rs. 23 crore in August 2023. While ISMT does not have any debt repayment obligation at present, its large capex plan of ~Rs. 430 crore in FY2024 towards solar power plant, cost saving projects and debottlenecking and Rs. 230 crore in FY2025 mainly towards capacity expansion and routine capex would keep its free cash flows under check.

Environmental & Social Risks

ISMT, like all other players in the ferrous metals industry, is exposed to environmental risks emanating from its energy intensive process, which requires a substantial use of fossil fuels, resulting in greenhouse gas emissions, industrial waste generation, and environmental pollution. ISMT faces pressure to reduce greenhouse gas and carbon emissions, among other sustainability issues. The company is equipped with total environmental control facilities like bag filters, zero liquid discharge system, recycle of solid waste like dust, among others which helps reduce emissions. In the steel plant division, the company has reduced the raw water intake by reprocessing of wastewater through RO treatment plant at various points.

Social risks for entities engaged in ferrous metal segment emerge from health and safety aspects of employees involved in the manufacturing activity. Casualties/accidents at operating units due to gaps in safety practices could not only lead to production outages, but also invite penal actions from regulatory bodies. The company has institutionalised a safety organisation structure and conducts training programmes and safety audits to measure the efficacy of the training programmes as well as their implementation. ISMT also has a unionised workforce. However, there were no labour union protests/strikes in the last year.

Rating sensitivities

Positive factors - ICRA could upgrade ISMT's ratings if it demonstrates continued healthy growth in revenues and profitability and improves its liquidity position while maintaining a comfortable capital structure and healthy debt coverage indicators. Additionally, ICRA could upgrade ISMT's ratings if there is an improvement in the credit 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 2.0 times on a sustained basis would be a negative factor. A deterioration in the credit 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(Stable)/[ICRA]A1+) 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, and 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, audited)

	FY2022	FY2023
Operating Income (Rs. Crore)	2,176.4	2,584.5
PAT (Rs. Crore)	2,374.1	87.7
OPBDIT/OI	3.5%	8.6%
PAT/OI	109.1%	3.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	2.8	0.4
Interest Coverage (times)	5.7	10.2

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jul 20, 2023	Dec 27, 2022	Jul 04, 2022		
1	**Fund-based / non-fund-based proposed facilities**	LT	-	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-
2	**Fund-based limits**	LT	145.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-
3	**Proposed term loan**	LT	150.00	-	[ICRA]A (Stable)	-	-	-	-
4	**Non-fund-based limits**	ST	410.00	-	[ICRA]A1	[ICRA]A2+	-	-	-
5	**Unallocated limits**	LT/ ST	45.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

LT- Long-term; ST – Short-term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Limits	Simple
Long-term – Fund-based Term Loan	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 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	8-9%	NA	145.00	[ICRA]A(Stable)
NA	**Proposed Term Loan**	NA	NA	NA	150.00	[ICRA]A(Stable)
NA	**Non-fund Based Facilities**	NA	NA	NA	410.00	[ICRA]A1
NA	**Unallocated Limits**	NA	NA	NA	45.00	[ICRA]A(Stable)/[ICRA]A1

Source: Company

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

Annexure II: 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

Corrigendum

The press release dated July 20, 2023, has been revised. The earlier press release did not include Environmental & Social Risks section. The same has been added on page number 3.

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