January 02, 2020

IFGL Refractories Limited: [ICRA]A+ (Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Working Capital Limits	143.00	[ICRA]A+ (Stable); Assigned
Fund-based Limits – Unallocated Limits	20.00	[ICRA]A+ (Stable); Assigned
Non-Fund based Limits – Letter of Credit/ Bank Guarantee	10.00	[ICRA]A1+; Assigned
Non-Fund based Limits – Letter of Credit/ Bank Guarantee#	(62.00)	[ICRA]A1+; Assigned
Total	**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

The assigned ratings consider IFGL Refractories Limited's (IFGL) strong promoter Group and its established track record of operations in the refractory manufacturing business, both in the domestic as well as overseas markets, which helps them remain competitive in the market. The ratings also derive comfort from the strong financial risk profile of the company, characterised by healthy profitability and a conservative capital structure, leading to robust coverage indicators. The customer base of the company is diversified and well reputed, leading to a low counterparty risk. Further, the ratings factor in the diversified geographical presence of IFGL, with presence in more than 20 countries across the globe. While the company remains exposed to fluctuations in foreign currency rates on the back of sizeable export receivables, the risk is mitigated to a large extent as the company imports some of its raw materials and consumables, and borrows a major portion (~90%) of its working capital requirement in foreign currency (Euro/USD), which provides it with a natural hedge against any adverse movement in exchange rates.

The ratings, however, are constrained by the company's moderate scale of current operations, although the top line witnessed a steady growth over the past two fiscals. The ratings are also impacted by intense competition and low bargaining power against large clients that limit pricing flexibility, and susceptibility of margins to adverse movement in raw material prices as the company primarily enters into fixed price nature of contract with its customers. The ratings also consider the high working capital intensity of operations because of high receivables position. Nevertheless, a sizeable portfolio of liquid investments, healthy cash accruals from business and undrawn working capital limits provide comfort to the liquidity position of the company.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that IFGL will continue to benefit from its recognised track record of operations in the domestic as well as overseas markets, and established relationships with its clients.

Key rating drivers and their description

Credit strengths

Strong promoters and established track record of operations in the refractory manufacturing business – The company is promoted by S. K. Bajoria Group, India and Krosaki Harima Corporation, Japan, a global leader in the refractories business. Vast experience of the management and the company's established track record of operations in the refractory manufacturing business, both in domestic as well as overseas markets, help IFGL to remain competitive in the market.

Established relationship with reputed clientele and diversified geographical presence – Over the years, the company has been able to maintain a stable customer base in an intensely competitive market. The clientele of the company is diversified with the top 5 customers accounting for around 33% of the total revenue in FY2019. ICRA also notes that the reputed customer base leads to a low counterparty risk. Around 50-60% of the company's revenue is generated from export sales. The ratings factor in the diversified geographical presence of IFGL, with presence in more than 20 countries across the globe.

Strong financial risk profile, characterised by healthy profitability and a conservative capital structure, leads to robust coverage indicators – The operating margin of the company continued to remain healthy at around 14% over the past three fiscals. The capital structure of the company has remained conservative over the past years, owing to healthy net worth and low reliance on external debt. On account of healthy profits as well as cash accruals and low gearing, the coverage indicators have remained strong. In view of a decline in the overall debt level of the company, the coverage indicators are likely to witness some improvement in FY2020 over the previous fiscal.

Low foreign currency fluctuation risk – ICRA notes that 50-60% of the refractories and castable manufactured by IFGL is exported to various countries. While the company remains exposed to fluctuations in foreign currency rates, the risk is mitigated to a large extent as the company imports some of its raw materials and consumables, which provides it with a natural hedge against any adverse movement in exchange rates. Moreover, the company borrows a major portion (~90%) of its working capital in foreign currency (Euro/USD), which also leads to a natural hedge against its export receivables.

Credit challenges

Moderate scale of current operations, however, top line witnessed steady growth over the past two years – The company's scale of operations has remained at a moderate level compared to the overall size of the domestic refractory market. However, ICRA notes that IFGL has been able to register a steady growth in its operating income over the past two years, primarily supported by revenue generated from export sales, which accounted for around 56% of the company's top line in FY2019. Although the growth momentum is likely to continue in FY2020 as well, it may witness some moderation as IFGL has already recorded a top line of around Rs. 256 crore (unaudited) during the first half of the current fiscal.

Intense competition and low bargaining power against large clients limit pricing flexibility – The customer profile of the company is reputed and primarily comprises large steel producers, namely Tata Steel, SAIL, JSPL, Arcelor Mittal etc. Intense competition in the refractory manufacturing business because of the presence of a large number of players in the domestic market along with cheap import from China and limited bargaining power with large customers limit pricing flexibility and exert pressure on margins.

Largely fixed price nature of contract; profitability remains exposed to adverse movement in raw material prices – The company primarily enters into fixed price nature of contract with its customers. Given the raw material intensive operations, any adverse movement in raw material prices can impact the profitability as the company's ability to pass on the input price escalations is limited.

High working capital intensity of operations; however, large portfolio of liquid investments provides comfort – The company has to extend an average credit period of 60-90 days to the domestic customers and 120-150 days to its overseas customers. On account of high receivables, the working capital intensity of the company's operations continued to remain on the higher side, as reflected by the net working capital relative to operating income (NWC/OI) of 38% in FY2019 (47% in FY2018). However, in view of a sizeable portfolio of liquid investments, limited capital expenditure plan compared to its current balance sheet size and absence of any major long-term debt service obligations, ICRA expects the overall liquidity position of IFGL to remain strong, going forward.

Liquidity position: Strong

The company generated positive fund flow from operations (FFO) over the past few years, supported by healthy cash accruals from the business, which is likely to continue in the near to medium term, at least. The overall working capital utilisation of the company stood at a moderate level of around 54% during the last 15 months. In view of a sizeable portfolio of liquid investments, limited capital expenditure plan, undrawn working capital limits and absence of any major long-term debt service obligations, ICRA expects the overall liquidity position of IFGL to remain strong, going forward.

Rating sensitivities

Positive triggers – ICRA may upgrade IFGL's rating if the entity demonstrates a significant improvement in the scale of operations and working capital cycle.

Negative triggers – Negative pressure on IFGL's rating may arise if there is an increase in working capital intensity of operations above 45%. Weakening in profitability may also exert negative pressure on the entity's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

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 engaged in the manufacturing 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. The manufacturing facilities of the company are located in Kandla, Gujarat and Rourkela, Odisha with a combined annual production capacity of 27,15,408 pieces of shaped refractories and 52,260 metric tonnes of unshaped refractories. IFGL is a subsidiary of Bajoria Financial Services Private Limited, which holds a 51.21% stake in the company.

On a consolidated basis, IFGL's operations are spread across China, Germany, India, the UK and the US through its various subsidiary and step-down subsidiaries.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	H1 FY2019 (Unaudited)	H1 FY2020 (Unaudited)
Operating Income (Rs. crore)	443.28	479.13	229.38	256.04
PAT (Rs. crore)	22.44	25.96	14.75	16.19
OPBDIT/ OI (%)	14.39%	14.03%	17.15%	13.79%
RoCE (%)	6.90%	6.68%	7.17%	7.52%
Total Outside Liabilities/Tangible Net Worth (times)	0.33	0.26	0.31	0.26
Total Debt/ OPBDIT (times)	1.41	1.00	1.01	0.92
Interest Coverage (times)	13.81	12.14	23.28	21.53
DSCR	6.83	8.48	21.61	14.19

Source: IFGL Refractories Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding 30-Sep-2019	Rating 2-Jan-2020	FY2019 -	FY2018 -	FY2017 -
1	**Working Capital Limits**	Long Term	143.00	64.82	**[ICRA]A+ (Stable)**	-	-	-
2	**Unallocated Limits**	Long Term	20.00	NA	**[ICRA]A+ (Stable)**	-	-	-
3	**Letter of Credit/ Bank Guarantee**	Short Term	10.00	-	**[ICRA]A1+**	-	-	-
4	**Letter of Credit/ Bank Guarantee#**	Short Term	(62.00)	-	**[ICRA]A1+**	-	-	-

Amount in Rs. crore
Source: IFGL Refractories Limited
 # 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 instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Working Capital Limits	-	-	-	143.00	[ICRA]A+ (Stable)
NA	Unallocated Limits	-	-	-	20.00	[ICRA]A+ (Stable)
NA	Letter of Credit/ Bank Guarantee	-	-	-	10.00	[ICRA]A1+
NA	Letter of Credit/ Bank Guarantee#	-	-	-	(62.00)	[ICRA]A1+

Source: IFGL Refractories Limited

 # 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:

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