April 07, 2020

Indian Metals & Ferro Alloys Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	555.11	438.00	[ICRA]A-(Negative); downgraded from [ICRA]A(stable)
Fund-based working capital limits	471.00	347.00	[ICRA]A2+; downgraded from [ICRA]A1
Non-fund based working-capital limits	90.00	90.50	[ICRA]A2+; downgraded from [ICRA]A1
Non-fund based working-capital limits**	(437.00)	(347.00)	[ICRA]A2+; downgraded from [ICRA]A1
Total	**1116.11**	**875.50**	

**Instrument details are provided in Annexure-1; **100% interchangeable with corresponding fund-based limits*

Rationale

The rating action factors in the sharp correction in ferro chrome (FeCr) prices globally, which significantly impacted the financial performance of Indian Metals & Ferro Alloys Limited (IMFA) in 9M FY2020 and is estimated to keep the debt protection metrics at much weaker-than-expected levels in FY2020. A weak global macroeconomic outlook, following the outbreak of COVID-19, which may adversely impact steel demand and consequently impact the ferro chrome demand and its pricing, results in further downside risks. While revising the ratings and the outlook, ICRA has noted the developments related to compensation for the expenses incurred for the de-allocated Utkal C coal block. Timely receipt of adequate compensation for the same, which the company plans to use to undertake significant de-leveraging of its balance sheet, would be a key factor in determining the financial risk profile of the company, going forward. ICRA takes comfort from IMFA's adequate liquidity position, with a modest unencumbered cash and liquid investment portfolio and sufficient headroom in working capital limits in the near term. ICRA expects the company's cash flows, supported by its liquidity position, to remain adequate relative to its debt service obligations.

The ratings continue to favourably factor in the experience of the promoters in the ferro-alloy industry and the established track record of the company as one of the largest exporters of ferro-chrome from India. The ratings also consider IMFA's competitive cost structure, on a global scale, on account of the integrated nature of operations with captive chrome ore mines and captive power plants. However, IMFA's exposure to the inherent cyclicality of the ferro-chrome industry keeps profitability and cash flows volatile. The ratings are also tempered by the surplus power generating capacity, which remains idle at present. Besides, non-return yielding investments in Utkal Coal Limited, which was developing the Utkal C block before it was de-allocated, continue to affect the company's overall financial performance. However, given the recent developments, the likely realisation of investment in the Utkal C block is expected to support business returns, going forward. Timely realisation of the same would also result in a significant improvement in capital structure and debt coverage indicators of the company. However, IMFA's profitability and debt coverage indicators would remain under pressure till the compensation (for the expenses incurred for the de-allocated Utkal C coal block) is received.

Key rating drivers and their description

Credit strengths

More than five decades of experience of the promoters; company one of the largest exporters of ferro chrome - The promoters of the company have experience of more than five decades in operating / managing ferro-chrome plants. IMFA is one of the leading domestic producers and exporters of ferro chrome. The total installed capacity is 190 MVA (284,000 MTPA) across six furnaces located at two manufacturing sites in Odisha. IMFA exports ~85% of its total annual production. The long-term volume contracts that the company have with some of the global leaders in the stainless-steel industry mitigate demand risks to an extent. Moreover, the location of the manufacturing sites near a number of ports helps in controlling the outward freight cost for the company.

Competitive cost structure on account of an integrated nature of operations both in terms of chrome ore and power - Chrome ore and power are the two most important cost drivers of ferro-chrome producers. IMFA has two operational chrome ore mines with an annual mining capacity of ~6.5 lakh MT, and 262.50 MW of power generation capacity including 4.5-MW solar power. The company's integrated nature of operations, being largely self-reliant in chrome ore and power, result in a competitive cost structure. The chrome-ore mines are located in proximity to the plants, resulting in low inward freight cost for the company. For its power unit, IMFA sources coal from a mix of linkage, washery rejects and e-auction. The location of the plants in the coal-rich region of Odisha results in a competitive landed cost of coal for the company.

Adequate liquid investment portfolio and established relationship with domestic banks and financial institutions – The company had a sizeable investment portfolio of ~Rs 70 crore as of end FY2019. The company has utilised the investments to support its operating cash flows as well as to meet the term loan repayment obligations in the current year. As of end February 2020, the company still had investments to the tune of Rs 44 crore. This along with the headroom available in working capital facilities, estimated to be ~ Rs. 50 crore, is expected to support liquidity of the company, going forward. IMFA also has established relationship with domestic banks and financial institutions. As a result, the company enjoys considerable financial flexibility.

Credit challenges

Weaker-than-anticipated performance in FY2020; further downside risks in FY2021 – A sharp correction in ferro chrome (FeCr) prices globally has impacted IMFA's financial performance in 9M FY2020, as reflected by a significant decline in the operating profits (adjusted) to Rs. 119 crore (OPM of 10.6%) in 9M FY2020 compared to Rs. 291 crore (OPM of 24.3%) achieved in the corresponding period of the last year. Notwithstanding an increase in sales volume in FY2020, muted FeCr prices is estimated to keep the debt protection metrics at a weaker level, than expected earlier, in FY2020, with estimated interest cover of ~2.2 times and NCA to Total Debt of ~7%. A weak global macroeconomic outlook, following the outbreak of the pandemic Covid-19, poses further downside risks to debt coverage indicators in FY2021. However, some benefits from softer input prices, receipt of insurance compensation for losses suffered in FY2018 and write-back of excess purchase of Renewable Energy Certificates pertaining to the previous years, are likely to support the operating profits. In addition, the expected receipt of compensation towards the de-allocated Utkal C block, which ICRA expects to be primarily used for deleveraging the existing debt, is likely to result in a substantial improvement in the debt metrics of the company, going forward. Timely fruition of the same, however, will remain a key rating monitorable.

Exposure to the cyclical nature of the ferro-chrome industry results in volatile cash flows – The company remains exposed to the cyclical nature of the ferro-chrome industry. In the past as well as in FY2020, IMFA has witnessed a considerable volatility in cash flows on the back of fluctuation in ferro-chrome prices. However, the long-term demand outlook for stainless steel, which is the primary consumer of ferro chrome, remains favourable. In the near term, the worldwide outbreak of Covid-19 is likely to impact stainless steel production, and consequently, the ferro chrome demand.

Surplus power generating capacity and non-return yielding investments continue to affect the company's financials – IMFA has captive thermal power plants and solar power plants of capacity accumulating to 262.50 MW, which leads to savings in energy costs. However, the installed capacity is more than internal requirements at present. Given the non-remunerative Odisha state grid tariff levels, and unavailability of coal from captive sources, as previously envisaged following cancellation of the Utkal C block, the company has been able to utilise only ~50% of the power generation capacity in the last few years. In addition, the company has investments of ~Rs. 375 crore in Utkal Coal Limited, a subsidiary that had been allocated the Utkal C block, which are not yielding any returns at present. Such large capital blockage in assets, which are not generating any returns, continues to affect IMFA's overall RoCE. However, given the recent developments, the expected realisation of proceeds as compensation for expenses incurred in the Utkal C block should support business returns, going forward.

Liquidity Position: Adequate

The company had a sizeable investment portfolio of ~Rs. 70 crore as of end FY2019. The company utilised the investments to support its operating cash flows as well as to meet the term loan repayment obligations. As of end February 2020, the company still had investments to the tune of Rs. 44 crore. This along with the headroom available in working capital facilities, estimated to be ~ Rs. 50 crore, is expected to support the liquidity of the company, going forward. ICRA expects the company's cash flows, supported by liquid investments, to remain comfortable relative to its debt service obligations.

Rating sensitivities

Positive triggers – While ICRA does not foresee any improvement in the rating in the near term, the outlook could be changed in case of timely deleveraging using the proceeds received as compensation for the Utkal C block as well as an improvement in profitability and debt protection metrics, going forward.

Negative triggers – Any material delay in receipt of adequate compensation for the expenses incurred towards the de-allocated Utkal C block, which would consequently delay the deleveraging of the company may result in ratings downgrade. Besides, lower-than-expected profits and cash flows, resulting in further deterioration in profitability and debt coverage indicators, could be the triggers for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous MetalsIndustry
Parent/Group Support	Not applicable
Consolidation / Standalone	Although IMFA had six subsidiaries, as on March 31, 2019, enlisted in Annexure-2, ICRA has analysed the performance of IMFA, on a standalone basis, which accounts for 100% of the consolidated revenue, operating profit and debt levels.

About the company

Indian Metals & Ferro Alloys Limited (IMFA), promoted by Late Bansidhar Panda, was incorporated in November 1961. The company primarily produces ferro alloys, including charge chrome (high carbon ferro chrome), and has an installed furnace capacity of 190 MVA (284,000 MTPA) in its two plant sites at Therubali and Choudwar in Odisha. The company's operations are supported by a 258-MW captive thermal power plant at Choudwar, captive chromite mines and a 4.5-MW solar power plant.

In FY2019, the company reported a net profit of Rs. 11.04 crore on an operating income of Rs. 1,635.22 crore compared to a net profit of Rs. 186.62 crore on an operating income of Rs. 1,768.40 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	1768.40	1635.22	1123.9
PAT (Rs. crore)	186.62	11.04	-18.1
OPBDIT/OI (%)	24.12%	19.85%	10.6%^
RoCE (%)	17.71%	5.57%	
Total Debt/TNW (times)	0.71	0.69	
Total Debt/OPBDIT (times)	2.00	2.45	
Interest coverage (times)	5.45	4.03	2.1

^Adjusted

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating 7-Apr-2020	FY2020 28-May-2019	FY2019 21-Dec-2018	FY2018 28-Feb-2018
1	Term Loan	Long Term	438.00	450.98 (as on March 10, 2020)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
2	Fund Based working capital Limit	Short term	347.00	264.05 (as on Dec 31, 2019)	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non fund based working capital Limits	Short Term	90.50	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Non-fund based working capital limits**	Short Term	(347.00)	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1

***100% interchangeable with corresponding fund-based 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	Term Loan	FY2015	-	FY2027	438.00	[ICRA]A-(Negative)
NA	Fund based working capital limits	-	-	-	347.00	[ICRA]A2+
NA	Non-fund based working capital limits	-	-	-	90.50	[ICRA]A2+
NA	Non-fund based working capital limits**	-	-	-	(347.00)	[ICRA]A2+

Source: Company data

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indian Metals and Carbide Ltd.	99.99%	Full Consolidation
Utkal Power Ltd.	100.00%	Full Consolidation
Utkal Coal Ltd.	79.20%	Full Consolidation
IMFA Alloys Finlease Ltd.	76.00%	Full Consolidation
Utkal Green Energy Ltd.	100.00%	Full Consolidation
Indmet Mining Pte. Ltd.	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
Jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 61693300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999