January 05, 2021

IFGL Refractories Limited: Long-term rating upgraded to [ICRA]AA- (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Working Capital Limits	143.00	143.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Fund-based Limits – Unallocated Limits	20.00	20.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Non-Fund based Limits – Letter of Credit/ Bank Guarantee	10.00	10.00	[ICRA]A1+; reaffirmed
Non-Fund based Limits – Letter of Credit/ Bank Guarantee#	(62.00)	(62.00)	[ICRA]A1+; reaffirmed
Total	**173.00**	**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 upgrade in the long-term rating considers the top line growth of IFGL Refractories Limited (IFGL) in H1 FY2021 vis-a-vis H1 FY2020, driven by a rise in export sales following increased demand of refractories from Eastern Europe, West Asia and Mexico, along with revenue generated from trading of refractory bricks. Rising domestic demand of steel (key consuming sector) augurs well for IFGL and ICRA expects that the operating income of the company would grow by around 20% in FY2021 over the previous fiscal. The ratings also consider a steady improvement in the working capital intensity of operations over the past few years on the back of reduced receivables position, which has favourably impacted the cash flow position of the company.

The ratings continue to factor in IFGL's 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 help it remain competitive in the market. The ratings also derive comfort from the strong financial risk profile of the company, characterised by a healthy profitability and a conservative capital structure, leading to robust coverage indicators. ICRA notes that the operating margin (OPM) of IFGL witnessed a sharp improvement to 20.43% in H1 FY2021 vis-a-vis 13.52% in H1 FY2020. Despite some likely moderation in H2 FY2021 with increasing raw material prices, the OPM of the company is likely to remain at an elevated level in FY2021, primarily driven by various cost and process optimisation measures adopted and use of cheaper alternative materials in the overall production mix. In FY2020 and FY2021, the company has planned a capital expenditure of around Rs. 60 crore (including setting up a new plant in Vizag, Andhra Pradesh), funded through internal accruals only. However, the same would have no bearing on the liquidity profile of the company in view of adequate cash flow from operations and sizeable liquid investments. The customer base of the company is diversified and reputed, resulting in a low counterparty risk. Further, the ratings also consider the diversified geographical presence of IFGL, with presence in more than 30 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 the 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 intense competition in the refractory manufacturing business and low bargaining power of the company 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 are also impacted by the exposure of the company to the cyclicality inherent in the steel industry as nearly 90% of its revenue is derived from sales to the steel manufacturing companies.

The Stable outlook on the [ICRA]AA- 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, established relationships with its clients and healthy cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Increase in the scale of operations in the current fiscal – The operating income of IFGL has witnessed a steady growth to around Rs. 494 crore in FY2020 from Rs. 372 crore in FY2017, primarily driven by an increase in sales volume. During H1 FY2021, export sales constituted around 63% (51% in FY2020) of the company's turnover, aided by increased demand from Eastern Europe, West Asia and Mexico. This, along with revenue generated from the trading of refractory bricks led to a growth in the company's top line to around Rs. 295 crore in H1 FY2021 vis-a-vis around Rs. 261 crore H1 FY2020. Rising domestic demand of steel (key consuming sector) augurs well for IFGL and ICRA expects the company's operating income to register a growth of around 20% in FY2021 over the previous fiscal.

Improvement in working capital intensity of operations – The company extends credit of around 60-90 days to the domestic customers and 120-150 days to its overseas customers. ICRA notes that the receivables position of the company has gradually declined over the past few years, which resulted in an improvement in the working capital intensity of operations, as reflected by the net working capital relative to the operating income (NWC/OI) of 25% in H1 FY2021 compared to 47% in FY2018. The same has also favourably impacted the cash flow position of the company.

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. On a consolidated basis, IFGL's operations are spread across China, Germany, India, the UK and the US through its various subsidiaries and step-down subsidiaries. Any form of financial support/ guarantee from IFGL to its subsidiaries/ step-down subsidiaries is not expected in the near to medium term.

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 five customers accounting for around 39% of the total revenue in FY2020. 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 30 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 (OPM) of IFGL continued to remain healthy at around 14% over the past four years. ICRA notes that the company has generated healthy cash accruals from business over the past years. An increase in volume of sales, softening of raw material prices, INR depreciation and optimisation of overheads led to a rise in the OPM of the company to 20.43% in H1 FY2021 vis-a-vis 13.52% in H1 FY2020. Despite some likely moderation in H2 FY2021 with increasing raw material prices, ICRA expects the company's OPM to remain at an elevated level in FY2021, primarily driven by various cost and process optimisation measures adopted and use of cheaper alternate materials in the overall production mix. The capital structure of the company has remained conservative over the past years, owing to a healthy net worth and low reliance on external debt. The coverage indicators witnessed a steady improvement over the past few years on account of an improvement in profits as well as cash accruals and reduced debt level. In view of a decline in the overall debt level of the company and a rise in profits as well as cash accruals from the business, the coverage indicators are likely to improve in FY2021 over the previous fiscal.

Credit challenges

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, ArcelorMittal 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 (on the back of low duty protection) and limited bargaining power with large customers limit pricing flexibility and exert pressure on margins.

Largely fixed price nature of contract; vulnerability of profitability 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 escalation is limited.

Exposure to cyclicality inherent in the steel industry – IFGL remains exposed to the cyclicality inherent in the steel industry as nearly 90% of its revenue is derived from sales to the steel manufacturing companies.

Liquidity position: Strong

The company generated positive cash flow from operations over the past few years, supported by healthy cash accruals from the business along with a steady decline in the working capital intensity of operations. Despite the capital expenditure incurred by IFGL, free cash flows remained positive in the past two years, which is likely to continue in the near to medium term as well. The overall working capital (fund-based and non-fund based) utilisation of the company stood at a low level of around 27% during the last 15 months. In view of sizeable liquid investments, limited capital expenditure plan compared to its current balance sheet size, undrawn working capital limits and absence of any long-term debt service obligations, ICRA expects that the overall liquidity position of IFGL would continue to remain strong, going forward.

Rating sensitivities

Positive triggers – Ratings upgrade is unlikely in the near term unless the company demonstrates a substantial increase in its scale of operations while maintaining a healthy operating margin.

Negative triggers – Pressure on IFGL's ratings may arise if there is a significant drop in profitability, an increase in the working capital intensity of operations and/ or any substantial debt-funded capital expenditure, adversely impacting the credit profile of the entity.

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 was engaged in the manufacturing of 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. The company is also setting up a new unit in Vizag, Andhra Pradesh to produce monolithics and precast shapes with an installed capacity of 48,000 MTPA. IFGL is a subsidiary of Bajoria Financial Services Private Limited, which holds a 51.21% stake in the company.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	H1 FY2020 (Unaudited)	H1 FY2021 (Unaudited)
Operating Income (Rs. crore)	483.04	494.17	261.18	295.10
PAT (Rs. crore)	25.96	29.73	16.19	31.09
OPBDIT/ OI (%)	13.92%	13.57%	13.52%	20.43%
PAT/OI (%)	5.37%	6.02%	6.20%	10.54%
Total Outside Liabilities/Tangible Net Worth (times)	0.26	0.23	0.26	0.25
Total Debt/ OPBDIT (times)	1.00	0.47	0.92	0.17
Interest Coverage (times)	14.07	16.12	21.53	46.37

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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding 30-Sep-2020	Rating 5-Jan-2021	FY2020 2-Jan-2020	FY2019 -	FY2018 -
1	**Working Capital Limits**	Long Term	143.00	20.71	**[ICRA]AA- (Stable)**	[ICRA]A+ (Stable)	-	-
2	**Unallocated Limits**	Long Term	20.00	NA	**[ICRA]AA- (Stable)**	[ICRA]A+ (Stable)	-	-
3	**Letter of Credit/ Bank Guarantee**	Short Term	10.00	-	**[ICRA]A1+**	[ICRA]A1+	-	-
4	**Letter of Credit/ Bank Guarantee#**	Short Term	(62.00)	-	**[ICRA]A1+**	[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]AA- (Stable)
NA	Unallocated Limits	-	-	-	20.00	[ICRA]AA- (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:

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.

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