February 28, 2025

Hira Power & Steels Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based limits	60.00	60.00	[ICRA]A-(Stable); reaffirmed
Long term- Term loan	4.00	2.58	[ICRA]A-(Stable); reaffirmed
Short term- Non-fund based facilities	116.00	112.5	[ICRA]A2+; reaffirmed
Proposed – Fund-based limits	-	4.92	[ICRA]A-(Stable); reaffirmed
Total	**180.00**	**180.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA has factored in the consolidated financials of Hira Power & Steel Limited (HPSL) along with its joint venture company, Exalt Druk Enviroklens Limited, which is executing a greenfield ferro-silicon plant in Bhutan. Given the strategic nature of the investment and the close to 90% equity contribution by HPSL in the project, ICRA expects the latter to provide need-based support to the JV in order to protect the value of its investments. ICRA has also taken a consolidated view of HPSL along with its wholly-owned subsidiary, Hira Electro Smelters Limited (HESL, rated(ICRA) A-/Stable), referred to as the Group, due to the common management, and close financial and operational linkages between these companies operating in a similar line of business.

The reaffirmation of the ratings considers the noticeable recovery in the Group's performance in 9M FY2025, driven by an improvement in the operating environment that has led to sequentially higher realizations. The Group's earnings were subdued in FY2024 due to an industry-level oversupply that pulled down the blended realizations by a steep 31% compared to FY2023. This weighed on the ferro-alloy spread and resulted in inventory losses due to steep price adjustment. ICRA also notes that the Group derives 40-50% of its revenues from value-added low/medium carbon ferro manganese sales, a segment which witnessed a steeper sequential price correction of 36% in FY2024 compared to the correction of 18% for commoditized high-carbon ferro manganese. Hence, the company faced a sharper decline in its earnings last fiscal than its peers who focused mostly on commoditised grades. However, ICRA notes that with blended realizations sequentially inching up by 15% in 9M FY2025, the consolidated OPBITDA/MT improved to Rs. 7,895/MT from an intermediate low of Rs. 2972/MT reported in FY2024.

The rating action factors in the over three decades of experience of the promoters in the ferro alloys industry and an established customer base, which includes companies like ArcelorMittal, Nippon Steel India Ltd and Jindal Stainless. The rating considers the Group's demonstrated track record of healthy and consistent capacity utilization, the presence of a 20-MW captive power plant at its Raipur site and linkages with Coal India Limited for coal procurement, thus positively impacting the cost structure. The ratings also positively factor in the benefits arising out of the various cost saving measures taken by the Group to reduce the power cost, including the renewable power sourcing arrangements with Power developers, at competitive tariffs. As per ICRA's estimates, these alternative power arrangements can lead to incremental cost savings of Rs. 20-22 crore in FY2026 and Rs. 15-16 crore in FY2027 .

The ratings draw comfort from the healthy share of value-added medium carbon/low carbon ferro manganese in its product mix, which supported higher blended realizations for the Group vis-à-vis the other players in the industry. The share of such products sold by HPSL stood at 39-51% in FY2021-2023, though this declined to 28% in FY2024 due to the drop in realisations following an oversupply in the segment.

The ratings are tempered by the weaker-than-expected credit metrics and the high debt-funded investment plans for the company. The Group's consolidated leverage (total debt/OPBITDA) deteriorated to 7.6 times in FY2024 from 0.7 times in FY2023 and is expected to subsequently improve to 4.2 times in FY2025, which is weaker than ICRA's previous baseline estimates of 0.8-2 times for FY2024/FY2025. Going forward, the Group's ability to maintain the consolidated total debt/OPBITDA below 2 times on a sustained basis will remain a key monitorable from a rating perspective.

The Group is at an advanced stage of executing a 36-MVA ferro-silicon project in Bhutan in a 50-50 JV with a local partner. The budgeted project cost of Rs. 140 crore is being funded by a debt:equity of 70:30. The Group is contributing to ~90% of the equity requirement of the project in the form of share capital and unsecured loans. ICRA believes the Group could be required to support the entity, as and when needed, till the time the asset stabilizes and is able to generate a surplus after meeting its liabilities. This exposes the Group to not only execution risks, which remain elevated in overseas projects, but also suppresses the consolidated leverage and debt protection metrics over the near term due to the large component of debt in project financing. That said, ICRA notes that the project is at an advanced stage of completion as it is expected to be commissioned in June 2025. Moreover, the attractive power sourcing arrangement in Bhutan at a tariff of Rs. 2.90/unit significantly enhances the asset's cost-competitiveness and leads to an attractive payback period.

The ratings also factor in the exposure of the company to the cyclicality inherent in the steel industry as ferro alloys are primarily used to manufacture steel, which, along with the relatively small size of the market and the limited number of players, exposes the industry's earnings to a high degree of volatility. Given the challenges associated with the adequate availability of good quality manganese ore in the domestic market, local ferro alloy manufacturers, including HPSL and HESL, depend on imported manganese ore to a large extent. This not makes the profitability vulnerable to the volatility in raw material prices but also exposes the Group to risks related to their timely availability. ICRA notes that given the general lead time of around two months for the import of manganese ore, any downward correction in seaborne prices during this period can potentially lead to inventory losses for domestic manufacturers, as seen in the Group's FY2024 performance when the operating margins had declined to 3.3% from 12.0% in FY2023.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group's overall earnings will be supported by an improved operating environment, which along with the power cost saving initiatives and the value-added low/medium carbon product offerings, is expected to lead to a gradual improvement in the credit metrics from FY2025.

Key rating drivers and their description

Credit strengths

Performance rebounds in FY2025, driven by improved realisations and power saving initiatives by the Group - The Group's financial performance improved in 9M FY2025 with the revenues growing to Rs. 1,050 crore. The revenue is expected to remain in the range of Rs. 1,250-1,300 crore by year-end, a YoY growth of 8-10%. This improvement will be driven by increased realisations on a low base of FY2024 when the realisations plummeted due to industry oversupply and slowdown in global steel demand growth. Ferro alloy prices corrected to Rs. 83,383/tonne in FY2024 from Rs. 1,19,988/tonne in FY2023. The decline in realisations was much steeper for medium/low carbon ferro manganese at 36% vis-à-vis a decline of 18% for commoditised high carbon ferro manganese. Hence, the Group faced a steeper correction of 31% in blended realisations in FY2024.

In FY2025, the operating environment improved as the supplies normalised following the closure of inefficient capacities, resulting in the realisations improving by around 14% in 9M FY2025 compared to FY2024. ICRA expects this uptrend in performance to sustain in the near term as well. Also, the company's OPBIDTA margins have improved to 8.3% in 9M FY2025 from 3.3% in FY2024 because of the improving realisations and the various cost saving measures taken by the company towards the sourcing of competitive power from renewable energy sources. This includes agreements with power developers. On a consolidated level, these initiatives have led to an estimated power saving of Rs 2.7/unit, translating to Rs. 27 crore in FY2025 and expected savings of around Rs. 48 crore in FY2026. The full benefits of these power sourcing arrangements would be visible from FY2027, where the annual cost savings would further increase to Rs. 63 crore.

Experienced promoters with extensive track record in ferro alloy industry and established relationships with customers - HPSL benefits from the extensive experience of its promoters in the ferro alloy industry, spanning over three decades. The long experience of the promoters has helped the company establish a strong customer base, which includes leading domestic steelmakers like ArcelorMittal, Nippon Steel India Ltd and Jindal Stainless. ICRA also notes the company's established trade relations with the clients, which has enabled it to get repeat business over the years. HPSL's revenues are diversified in terms of geographical and customer presence. Its top 10 customers contributed to around 24% to the total sales, and exports account for more than 40% of its total sales on a consolidated basis.

Track record of healthy capacity utilisation and benefits from captive power plant - Over the years, the company has demonstrated its ability to consistently operate at healthy capacity utilisation levels, reflected in an average utilisation of over 85% in the past five years. Despite the increase in the Group's capacity to 1,47,730 MTPA in FY2024 from 78,000 MTPA in FY2022, the capacity utilisation rate remained above 90% between FY2023 and FY2024. The company's ferro alloy operations are highly power-intensive. However, power from its 20-MW captive power unit at a competitive cost meets a major part of the overall power requirement of the Raipur plant, which positively impacts the cost structure.

High share of value-added products (low/medium carbon ferro manganese) leads to superior product realisations - HPSL is among the few ferro alloy producers in the domestic market that can produce value-added products like medium carbon and low carbon ferro manganese, which command a significant price premium over the commoditised high carbon ferro alloys. The share of such value-added products sold by HPSL stood at 39-51% during FY2021 to FY2023, which supported higher blended realisations for the company vis-à-vis the other players in the industry. However, the share of these products fell to 28% in FY2024 due to a steep decline in realisations for value-added products. The operating environment has started improving in FY2025 as supplies have normalised and steel demand growth in key countries is recovering. Hence, the share of such value-added product should increase and improve the blended realisations for the Group.

Credit challenges

Weaker-than-expected credit indicators in FY2024/FY2025 due to muted operating environment and debt-funded investment plans - There has been a moderation in the credit indicators due to a volatile operating environment, which has pulled down the OPBIDTA margins to 3.3% in FY2024 and an estimated 8.5% in FY2025 against 12.0% in FY2023. This is significantly lower than ICRA's earlier baseline operating margin estimates of 8-10% during FY2024-FY2025. Consequently, the total debt/OPBITDA deteriorated to 7.6 times in FY2024, being significantly lower than ICRA's earlier estimate of 0.8 times, as earnings plummeted in H2 FY2024.

In the current fiscal, the earnings have shown an uptrend, supported by improving realisations and reduction in power costs. However, the total debt/OPBITDA is expected to still remain at an elevated 4.2 times in FY2025, being much weaker than the earlier expectation of 2 times forecast for the current fiscal. However, ICRA understands that the lease liability amounting to Rs. 191.8 crore associated with a short-term power sourcing arrangement with a group entity is expected to expire in June 2025. This, along with an expected improvement in the operating profit margins to 9.5-10% in FY2026, is likely to bring down the consolidated leverage to 2 times in FY2026, even as the project debt of Rs. 98.1 crore for Bhutan gets consolidated. Going forward, the Group's ability to maintain the consolidated total debt/OPBITDA below 2 times on a sustained basis will remain a key monitorable from a rating perspective.

Execution risk associated with Bhutan project; debt-funded expansion to increase consolidated leverage in FY2025 - Exalt Druk Enviroklens Limited (EDEL) has been set up with a 50:50 ownership between Hira Power & Steel Limited (HPSL) and Mr. Tenzing Yonten, founder & director of Royal Thimphu College, Bhutan, to set-up a 36-MVA ferro silico manganese plant in Bhutan with an annual production capacity of 35,000 MTPA at a total estimated project cost of approximately Rs.140 crore. The project will be financed through a combination of equity and debt, with equity contributions amounting to Rs. 42 crore and the remaining Rs. 98.10 crore raised through debt financing. The debt has been secured from two financial institutions—Bank of Bhutan (Rs. 55.80 crore) and Bhutan National Bank (Rs. 42.30 crore).

ICRA understands that there is no personal guarantee from any director of HPSL, nor any corporate guarantee from HPSL/HESL towards this debt. Of the Rs. 42-crore equity infusion, HPSL will contribute Rs. 37.80 crore, while the remaining amount will be provided by Mr. Tenzing Yonten. HPSL has already invested Rs. 22.5 crore till now. The operations are scheduled to commence in July 2025, with trial runs expected to begin by May/June 2025. With ~90% of the equity contribution coming from HPSL, ICRA expects the latter to provide need-based support to the asset during the stabilization phase out of its needs to protect the value of the asset and avert erosion of its equity investment in the project.

Earnings vulnerable to cyclicality in steel sector – Ferro alloys are primarily used to manufacture steel, wherein manganese plays the role of a desulphuriser and deoxidiser in the steelmaking process and impart special properties such as increased resistance to abrasion, improved hardness, workability and tensile strength. Thus, the demand and realisations for ferro alloys are dependent on the steel industry, which is cyclical in nature, leading to high volatility in earnings. This is evident from the decline in realisations to Rs 83,383/tonne in FY2024 from Rs 1,19,888/tonne in FY2023, inching up to Rs. 95,570/tonne in 9M FY2025.

Dependence on manganese ore imports exposes company to risks related to raw material availability and price volatility – Given the challenges associated with adequate availability of good quality manganese ore in the local markets, domestic ferro alloy manufacturers, including HPSL, depend on imports to a large extent. The price of manganese ore, which is one of the main raw materials for HPSL, is highly volatile. This exposes the profitability to volatility in raw material prices and makes the company vulnerable to risks related to their timely availability.

ICRA notes that given the general lead time of around two months for the import of manganese ore, any downward correction in seaborne prices during this period can potentially lead to inventory losses for domestic manufacturers, including HPSL, and remains a structural disadvantage for the industry on account of the domestic ore shortage. This was reflected in the decline in margins in FY2024 as the Group is believed to have suffered stock losses during the fiscal when prices started to fall precipitously. The Group was stuck with high-cost inventory, which was sold at the prevailing lower market prices, causing the OPBIDTA margins to decline to 3.3% in FY2024 from 12.0% in FY2023.

Liquidity position: Adequate

The liquidity position of the company is adequate with undrawn working capital lines of ~Rs. 59 crore as of January 2025-end and the healthy cash flow from operations of Rs. 60-65 crore expected in FY2026. Against these sources of cash, the company has a total capex commitment of Rs. 35-40 crore, and scheduled debt service obligations of Rs. 20-25 crore in FY2026, leaving a comfortable liquidity headroom.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to demonstrate profitable operations across business cycles while maintaining comfortable liquidity and significantly improving its credit metrics.

Negative factors – The rating can come under pressure if a deterioration in the operating environment or any large debt funded capex leads to a weakening of the liquidity and credit metrics. Specific credit metric that can lead to a downgrade includes consolidated Total debt/ OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	While arriving at the rating, ICRA has factored in the consolidated financials of Hira Power & Steel Limited (HPSL) along with its joint venture company, Exalt Druk Enviroklens Limited (EDEL), which is executing a greenfield ferro-silicon plan in Bhutan. Given the strategic nature of the investment and the close to 90% equity contribution by HPSL in the project, ICRA expects the latter to provide need-based support to the JV in order to protect the value of its investments. ICRA has also taken a consolidated view of HPSL along with its wholly-owned subsidiary, Hira Electro Smelters Limited (HESL, rated (ICRA)A-/Stable), referred to as the Group due to the common management, and close financial and operational linkages between these companies operating in a similar line of business

About the company

HSPL, incorporated in 1984, manufactures manganese-based ferro alloys, primarily ferro manganese. Its production facility is at Urla in Raipur (Chhattisgarh) and has an installed production capacity of 73,000 MTPA. HPSL's operations are supported by a 20-MW captive thermal power plant.

Hira Electro Smelters Limited (HESL), a wholly-owned subsidiary of HPSL, also manufactures manganese-based ferro alloys, primarily ferro manganese. ts production facility is at Bobbili in Vizianagaram (Andhra Pradesh) and has an installed production capacity of 74,730 MTPA. On a consolidated basis, the total production capacity of the company is 1,47,730 MTPA. The company is promoted by Mr. O. P. Agrawal-faction of the Raipur-based Hira Group.

Exalt Druk Enviroklens Limited (EDEL) has been formed with a 50:50 ownership between Hira Power & Steel Limited (HPSL) and Mr. Tenzing Yonten to set up a ferro silico manganese plant in Bhutan with an annual production capacity of 35,000 MTPA at a total estimated project cost of around Rs. 140.1 crore. HPSL has already invested Rs. 22.5 crore till now. The operations are scheduled to commence in July 2025, with trial runs expected to begin by May/June 2025.

Key financial indicators (Audited)

Consolidated(HPSL+HESL)	FY2023	FY2024	9M FY2025 (Provisional)
Operating income	1,030.8	1,170.0	1050.5
PAT	81.8	5.8	27.7
OPBDIT/OI	12.0%	3.3%	8.3%
PAT/OI	7.9%	0.5%	2.6%
Total outside liabilities/Tangible net worth (times)	0.5	1.1	NA
Total debt/OPBDIT (times)	0.7	7.6	NA
Interest coverage (times)	11.9	2.0	3.0

PAT : Profit after Tax has been taken excluding share of profit of associate company; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Standalone HPSL	FY2023	FY2024	9M FY2025 (Provisional)
Operating income	288.8	467.2	502.2
PAT	8.8	3.0	11.3
OPBDIT/OI	4.4%	3.0%	7.4%
PAT/OI	3.0%	0.6%	2.2%
Total outside liabilities/Tangible net worth (times)	1.1	2.0	NA
Total debt/OPBDIT (times)	6.0	8.5	NA
Interest coverage (times)	9.7	2.2	3.4

PAT: : Profit after Tax has been taken excluding share of profit of associate company; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 28, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based limits	Long term	60.00	[ICRA]A- (Stable)	Nov-28-23	[ICRA]A- (Stable)	-	-	-	-
				Nov-20-23	[ICRA]A- (Stable)	-	-	-	-
Non-fund based	Short term	112.50	[ICRA]A2+	Nov-28-23	[ICRA]A2+	-	-	-	-
Term loans	Long term	2.58	[ICRA]A- (Stable)	Nov-28-23	[ICRA]A- (Stable)	Mar-13-23	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	Jan-12-22	[ICRA]BB+ (Positive)
				-	-	Jan-17-23	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	-	-
Proposed	Long term	4.92	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based limits	Simple
Long term – Term loans	Simple
Short term – Non-fund based facilities	Very Simple
Long term – Proposed fund-based limits	Simple

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-1: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long term – Fund-based limits	NA	NA	NA	60.00	[ICRA]A- (Stable)
NA	Long term – Term loans	March 2021	NA	March 2027	2.58	[ICRA]A- (Stable)
NA	Short term – Non-fund based facilities	NA	NA	NA	112.50	[ICRA]A2+
	Long term – Proposed fund-based limits				4.92	[ICRA]A- (Stable)

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

Annexure II: List of entities considered for consolidated analysis:

Company name	Ownership	Consolidation approach
Hira Electro Smelters Limited	100.00%	Full consolidation
Naga Coal Mines (India) Private Limited	50.40%	Full consolidation
Dolphin Holdings & Real Estate Private Limited	30.76%	Equity method
Hira Carbonics Private Limited	22.00%	Equity method
Exalt Druk Enviroklens Limited	50.0%	Full consolidation

Source: Company

ANALYST CONTACTS

Girish Kumar Kadam
+91 22 61143441
girishkumar@icraindia.com

Vikram V
+91 40 40676518
vikram.v@icraindia.com

Ritabrata Ghosh
+91 33 65216813
ritabrata.ghosh@icraindia.com

Himanshu Khare
+91 124 4545323
himanshu.khare@icraindia.com

Deepayan Ghosh
+91 33 65216804
deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches