March 04, 2022

Indian Metals & Ferro Alloys Limited: Long-term rating upgraded to [ICRA]AA-; Short-term rating reaffirmed at [ICRA]A1+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	347.89	15.64	[ICRA]AA-; Upgraded from [ICRA]A+; outlook revised to Stable from Positive
Fund-based Limits	415.35	435.00	[ICRA]A1+; Reaffirmed
Non-fund Based Facilities	112.26	120.00	[ICRA]A1+; Reaffirmed
Non-fund Based Facilities**	(415.35)	(435.00)	[ICRA]A1+; Reaffirmed
Untied Limits	0.00	304.86	[ICRA]AA-; Upgraded from [ICRA]A+; outlook revised to Stable from Positive
Total	**875.50**	**875.50**	

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

Rationale

The rating action factors in Indian Metals & Ferro Alloys Limited's (IMFA) favourable operating environment in FY2022 and expected sustenance of the same in FY2023, supported by remunerative ferro chrome prices due to a combination of rising global stainless-steel production and production restrictions on ferro chrome in China, supporting a surge in the company's earnings and an accelerated deleveraging trajectory. IMFA's operating profits rose significantly in 9M FY2022 to ~Rs.613 crore against ~Rs.198 crore in 9M FY2021, supported by large price hikes in response to favourable international ferrochrome prices and rising demand. The company reported an OPBDITA/tonne of Rs. 34,466 in 9M FY2022, which was one of the highest in the recent periods. While the OPBDITA/tonne is likely to moderate in the coming quarters owing to elevated met coke and thermal coal prices, for which the company depends on external sources entirely, ICRA believes that the company's profit metrics are likely to remain significantly better than the long-term historical median levels over the near term. Healthy cash flows on account of improved ferrochrome spreads helped the company embark on a deleveraging strategy. The net debt levels fell to ~Rs.346 crore as on December 31, 2021 from ~Rs.655 crore as on March 31, 2020 and further reduced to ~Rs.206 crore as on January 31, 2022. The surge in earnings and prepayments/scheduled repayments made in the current fiscal led to an improvement in the credit metrics with the interest coverage increasing to 13.5 times in 9M FY2022 from 1.4 times in FY2020 and Net Debt/OPBDITA declining to 0.4 times in 9M FY2022 (annualised) from 4.8 times in FY2020. The ratings also factor in the greater visibility towards recovery of a large part of the invested capital for the Utkal-C coal block following successful reauctioning of the block to Jindal Steel & Power Limited (JSPL) in February 2022.

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 its operations with captive chrome ore mines and captive power plants meeting a substantial part of its requirement. The ratings are, however, tempered by IMFA's exposure to the inherent cyclicality of the ferro-chrome industry. Prices of ferro chrome, which are primarily used as an input for producing stainless steel, have witnessed a considerable volatility in the past, which in turn makes IMFA's cash flows volatile as well. In addition, surplus power generating capacity continues to be a drag on the company's return on capital employed (RoCE). The ratings also remain constrained by the execution and operational risks associated with the large-scale capex programme towards downstream greenfield ferrochrome expansion and mine development. Besides the long gestation period, the operational risks associated with the project will be heightened if the project commissioning coincides with a cyclical downturn in the sector. ICRA, however, understands that the planned capex will be largely funded through internal accruals. Any significant debt contracted to fund the capex, will be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's expectations that IMFA will continue to benefit from the favourable operating environment for ferro chrome, which would help the company report healthy profits and cash accruals over the near term.

Key rating drivers and their description

Credit strengths

Surge in earnings in FY2022 given the remunerative ferrochrome prices; overall earnings expected to remain healthy in the near term notwithstanding some moderation expected – IMFA's operating profits rose significantly in 9M FY2022 to ~Rs.613 crore against ~Rs.198 crore in 9M FY2021, supported by large price hikes in response to favourable international ferrochrome prices and rising demand. The company reported an OPBDITA/tonne of Rs. 34,466 in 9M FY2022, which was one of the highest in the recent periods. Additionally, ICRA believes that IMFA's business outlook remains favourable for the remainder of FY2022 and thereafter in FY2023 with resilient demand for ferro chrome amid rising stainless steel production globally. While the OPBDITA/tonne is likely to moderate in the coming quarters owing to elevated met coke and thermal coal prices, for which the company depends on external sources entirely, ICRA believes that the company's profit metrics are likely to remain significantly better than the long-term historical median levels over the near term.

Healthy cash flows on account of improved ferrochrome spreads helped the company embark on a deleveraging strategy. The net debt levels fell to ~Rs.346 crore as on December 31, 2021 from ~Rs.655 crore as on March 31, 2020 and further reduced to ~Rs.206 crore as on January 31, 2022. The surge in earnings and prepayments/scheduled repayments made in the current fiscal led to an improvement in the credit metrics with the interest coverage increasing to 13.5 times in 9M FY2022 from 1.4 times in FY2020 and Net Debt/OPBDITA declining to 0.4 times in 9M FY2022 (annualised) from 4.8 times in FY2020. ICRA expects IMFA's net debt-to-operating profit to remain less than 0.2 times between FY2022 and FY2024.

Greater visibility towards recovery of invested capital for the Utkal-C coal block following successful reauctioning of the block to a new bidder – IMFA has invested around Rs.375 crore towards land and surface infrastructure for the Utkal-C coal block, through its subsidiary, Utkal Coal Limited (UCL), which was deallocated by the Supreme Court in September 2014. In February 2022, the Ministry of Coal has reauctioned the said coal block, and the same was won by JSPL. The exact amount of the upfront payment for the Utkal-C block is yet to be calculated by the nominated authority. However, the amount invested towards land acquisition is eligible for a 12% simple rate of interest since the date of purchase. So, ICRA believes that IMFA is likely to be able to recover a sizeable portion of the invested amount, which is expected to further strengthen the company's liquidity profile.

Long 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 across six furnaces located at two manufacturing sites in Odisha. IMFA exports ~85% of its total annual production. The long-term volume contracts that IMFA have with some of the global leaders in the stainless-steel industry, mitigate demand risks to an extent.

Competitive cost structure due to 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, apart from met coke. IMFA has two operational chrome ore mines with a peak annual mining capacity of ~9 lakh MT. Its captive power generation capacity (post de-rating of its old plant) stands at 204.5 MW. The company's integrated nature of operations, being largely self-reliant in chrome ore and power, results in a competitive cost structure. The chrome ore mines' proximity to the plants benefits the company owing to low inward freight costs. For its power unit, IMFA sources domestic coal from a mix of linkages, washery-rejects and through e-auction. The location of the plants in the coal-rich region of Odisha results in a competitive landed cost of coal. Moreover, the location of the manufacturing sites close to ports helps in controlling the outward freight cost.

Healthy free cash/bank/liquid investment portfolio and established relationships with domestic banks and financial institutions impart financial flexibility – Notwithstanding the sizeable prepayments made in the current fiscal from the operating cash flows, the company still had an unencumbered cash and liquid investment portfolio of ~Rs.192 crore as on January 31, 2022. The company also enjoys established relationships with domestic banks and financial institutions. As a result, it has a considerable financial flexibility.

Credit challenges

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, IMFA has witnessed considerable volatility in cash flows on the back of fluctuations in ferro-chrome prices. However, IMFA's status as one of the low-cost ferro-chrome producers makes it resilient to industry downcycles, when ferro chrome prices remain tepid.

Surplus power-generating capacity continues to be a drag on the company's financials – IMFA has captive thermal power plants and solar power plants of capacity accumulating to 204.5 MW, which leads to savings in energy costs. However, the installed generation capacity is significantly higher than its 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 not been able to fully utilise its power generation capacity for the last few years. Such a large capital blockage, which are not generating any returns, continues to affect IMFA's overall RoCE, notwithstanding the improvement on the back of healthy returns from the core business operations seen from FY2021.

Sizeable capex and associated risks – The company has announced a capex programme accumulating around Rs.1,600 crore, to be incurred over the next seven years for downstream greenfield ferrochrome expansion (~1 lakh TPA) and mine development (expansion of Sukinda's capacity from 3.51 lakh TPA to 6 lakh TPA through underground mining). The capex plans are large vis-à-vis IMFA's current balance sheet size and hence remains exposed to operational and execution risks. Besides the long gestation period, the operational risks associated with the project will increase if the project commissioning coincides with a cyclical downturn in the sector. ICRA understands that the planned capex will be largely funded through internal accruals. Any significant debt, contracted to fund the capex, will be a credit negative.

Liquidity position: Strong

IMFA's liquidity profile remains **strong**, as reflected in the large cash balance and liquid investment portfolio of ~Rs.192 crore as on January 31, 2022, which impart a high degree of financial flexibility to the company. Notwithstanding the large-scale capex plans announced by the company, healthy operating cash flows expected going forward along with the staggered manner of the capex programme with lower outlay in the initial years, will support the liquidity profile of the company. ICRA expects the company to be able to comfortably meet the capex commitments from internal sources in the initial years and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company is able to commission the upcoming expansion project within the budgeted timeline and costs, and quickly stabilises the operations thereafter. Specific metrics that could lead to an upgrade is Net Debt/OPBDITA of less than 0.5 times on a sustained basis following commissioning of the upcoming expansion.

Negative factors – The ratings could witness pressure if any adverse movement in realisations/ costs significantly affects margins, leading to a material deterioration of the credit metrics. Specific triggers that could lead to ratings downgrade include Net Debt/OPBDITA of higher than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	As on March 31, 2021, IMFA had three subsidiaries, a) Utkal Coal Ltd, b) IMFA Alloys Finlease Ltd, and c) Indmet Mining Pte Ltd. Out of these, Utkal Coal Ltd and Indmet Mining Pte Ltd are yet to commence operations. The operations of IMFA Alloys Finlease Ltd are not meaningful compared to IMFA's current scale. Moreover, there is no external debt in IMFA's subsidiaries. Therefore, for arriving at the ratings, ICRA has considered the standalone financials of IMFA.

About the company

Indian Metals & Ferro Alloys Limited (IMFA), promoted by Late Dr. 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 200-MW captive thermal power plant at Choudwar, captive chromite mines and a 4.5-MW solar power plant.

Key financial indicators (Audited)

IMFA Standalone	FY2020	FY2021	9M FY2022^
Operating Income (Rs. crore)	1611.9	1844.2	1846.2
PAT (Rs. crore)	(68.5)	166.8	365.2
OPBDIT/OI (%)	8.5%	18.3%	33.2%
PAT/OI (%)	(4.3%)	9.0%	19.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1	-
Total Debt/OPBDIT (times)	5.1	2.0	0.6
Net Debt/OPBDIT (times)	4.8	1.6	0.4
Interest Coverage (times)	1.4	5.9	13.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2022 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Mar 4, 2022	Sep 27, 2021	Mar 22, 2021	Jan 25, 2021	Apr 7, 2020	May 28, 2019	Dec 21, 2018
1	Term Loan	Long-term	15.64	15.64	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	[ICRA]A(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A(Stable)	[ICRA]A(Positive)
2	Fund Based Limits	Short-term	435.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
3	Non Fund Based Facilities	Short-term	120.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Non Fund Based Facilities **	Short-term	(435.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
5	Untied Limits	Short-term	-	-	-	-	[ICRA]A1	[ICRA]A2+	-	-	-
6	Untied Limits	Long-term	304.86	-	[ICRA]AA-(Stable)	-	-	-	-	-	-

***100% interchangeable with corresponding fund-based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund Based Limits	Simple
Non Fund Based Facilities	Very simple
Non Fund Based Facilities**	Very simple
Untied Limits	NA

***100% interchangeable with corresponding fund-based limits*

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, is available on ICRA's 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	FY21	NA	FY25	15.64	[ICRA]AA-(Stable)
NA	Fund Based Limits	NA	NA	NA	435.00	[ICRA]A1+
NA	Non Fund Based Facilities	NA	NA	NA	120.00	[ICRA]A1+
NA	Non Fund Based Facilities**	NA	NA	NA	(435.00)	[ICRA]A1+
NA	Untied Limits	NA	NA	NA	304.86	[ICRA]AA-(Stable)

Source: *Company; **100% interchangeable with corresponding fund-based limits*

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

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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