



Press Release

Metallic Ferro Alloys LLP

February 24, 2022

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	45.00	IVR BBB-/ Positive (IVR Triple B minus with positive outlook)	Reaffirmed	Simple
Short Term Bank Facilities	15.00	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	60.00 (Rs. Sixty Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Metallic Ferro Alloys LLP (MFALLP) takes into account the long track record of operations and experienced partners, established relationship with reputed customers, stable financial performance in FY21 with improvement witnessed in the current fiscal, satisfactory financial risk profile marked by comfortable gearing ratio and healthy debt protection metrics and prudent working capital management. These rating strengths are partially offset by its low operating margin, exposure to forex risk, fragmented nature of the industry with intense competition, cyclicity of demand which is inherent in metal industry and exposure to risks involved in partnership. The outlook remains positive driven by expected improvement in scale of operations and margins of the company in near term.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operations with improvement in profitability and cash accruals
- Sustenance of the capital structure with improvement in debt protection metrics marked by improvement in interest coverage ratio to over 2x.
- Manage working capital requirement efficiently with improvement in collection period and liquidity

Downward Factors

- Moderation in the scale of operations of the firm and/or moderation in profitability



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- Withdrawal of subordinated unsecured loan amounting to Rs.25 crore and/or withdrawal of capital by the partners affecting the capital structure with deterioration in overall gearing to more than 1.5x and/or moderation in debt protection metrics
- Elongation in operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations and experienced partners**

Initially established in the year 1975 as a partnership firm in the name “M/S Metallic Alloys”, Metallic Ferro Alloys LLP has a long track record of its operations. With long presence in the industry, the partners of the firm have gained extensive experience in ferro-alloy trading.

- **Established relationship with reputed customer**

MFALLP enjoys a longstanding and established relationship with its main customer, Jindal group. Jindal group contributes ~75% of MFALLP's overall sales through various companies which also indicates some degree of client concentration.

- **Stable financial performance with improvement in 9MFY22**

The total operating income of the firm remained almost stagnant with marginal y-o-y improvement in FY21 to Rs.449.47 crore in FY21 as compared to Rs.442.40 crore in FY20. Further, during FY21, the firm has witnessed rise in its volume sales. The Firm's operations improved significantly in 9FY22 on the back of increase in demand in the market. During 9MFY22, the export sales have increased around two times to Rs.133.67 crore (as compared to Rs.66.91 crore in FY21) and the firm has achieved a revenue of Rs.566 crore.

- **Satisfactory financial risk profile marked by moderate net worth base leading to satisfactory gearing with healthy debt protection metrics**

The firm has a satisfactory financial risk profile marked by its moderate net worth base of Rs.57.91 crore as on March 31, 2021 (considering subordinated unsecured loan of Rs.25.00 crore as quasi equity) with a comfortable capital structure and adequate debt protection metrics. The debt profile of the firm mainly comprises fund based working capital limits. The overall gearing ratio of the firm remained comfortable at 0.72x as on March 31, 2021 (0.81x as on March 31, 2020). Total indebtedness of the firm as reflected by TOL/ATNW improved



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to 1.22x as on March 31, 2021. The debt protection parameters continue to remain comfortable marked by total debt GCA of 1.20x and Total debt to EBITDA at 3.66x as on March 31, 2021. The interest coverage ratio remained comfortable at 1.39x in FY21 (1.51x in FY20).

- **Prudent working capital management**

The operations of the firm are working capital intensive as the firm has a policy to maintain inventory of about a month due to time lag between placing of order and importing the materials and has to extend high credit period to its customers of ~75-90 days due to intense competition in the operating spectrum. The collection period stood at 73 days in FY21 (85 days in FY20) attributable to the industry demand scenario. In order to manage its working capital requirements, the firm uses bill discounting limit credit period availed from its creditors in the range of 40-50 days. Further, the firm's average working-capital utilization remained low at ~32% during last 12 months' period ended December 2021.

Key Rating Weaknesses

- **Low operating margin due to low value addition**

The operating margin of the firm remained thin over the years mainly due to low value additive trading nature of its operations with intense competition in the operating spectrum. With thin EBITDA margin, the PAT margin of the firm also remained thin over the years. However, the EBITDA margin has moderated in FY21 mainly due to increase in raw material cost and other operational expenses with drop in its average sales realisations.

- **Presence in a fragmented industry structure with intense competition**

The firm is engaged in trading business of various ferro-alloys which is highly competitive due to presence of many players owing to less product differentiation and low entry barriers. Presence of many players in the operating spectrum constrains the pricing flexibility of the firm to a large extent.

- **Exposure to forex risks**

Imports accounted for ~28.85% of the firm's total procurement in FY21 (~17.50% in FY20) on the other hand company has exports accounted for ~18.94% of its total sales in FY21 (~13% in FY20). Therefore, the company enjoys benefits of natural hedging. Further, the firm also



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adopts forward contracts to manage its forex risk. However, despite a hedging mechanism the firm remains exposed to forex risks to an extent.

- **Cyclicality inherent in metal industry which is expected to keep company's cash flows volatile**

The prospects of the alloy industry are strongly correlated and linked to the performance of the steel industry, since Ferro alloys are intermediaries for the steel industry. Demand for steel products is sensitive to trends of particular industries, such as automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry generally witness steep decline in demand, leading to decrease in demand of ferro-alloys. The volatility in operating income takes into account lower sales realization of its traded products despite increase in sales volume on account of Covid 19 pandemic. The cyclicality is also expected to remain in the going forward which may hamper the cash flows of the firm. However, the firm's opportunistic shift between imports and domestic procurement/sales depending upon the market conditions provides some comfort.

- **Risk inherent in partnership firm with instances of capital withdrawn**

Given the constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Adequate

The liquidity position of the firm is expected to remain adequate in the near to medium term marked by its expected satisfactory cash accruals against negligible repayment obligations. Further, with a gearing of 0.72 times as on March 31, 2021, the firm has sufficient gearing headroom, to raise additional debt. Further, the firm's average working-capital utilization



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remained low at ~32% for the trailing 12 months' period ended December 2021 indicating an adequate liquidity buffer.

About the Firm

Metallic Ferro Alloys LLP was originally established in the year 1975 as a partnership firm in the name "M/S Metallic Alloys" and later on November 15, 2018, its constitution was changed to Limited Liability Partnership. Mr Mahesh Jhalani, Mr Om Prakash Jhalani, Mr Pratul Jhalani and Mr Ankit Jhalani are the partners in the firm and looks after the day-to-day operations of the firm. It is engaged in the trading business of Manganese ore, copper scraps and ferro alloys such as ferro manganese, ferro silicon, silicon manganese, ferro titanium, ferro aluminium etc. At present, the firm has warehouses located at Delhi, Gujarat, Punjab & Chhattisgarh. It also imports high quality ferroalloys i.e., ferromanganese, ferrosilicon, silicon manganese, manganese ore, ferrochrome, copper, silicon metal, nickel, iron ore from South Africa, Dubai, UAE and Europe.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	442.40	449.47
EBITDA	16.01	11.38
PAT	1.53	4.40
Total Debt	39.07	41.65
Tangible Net worth	30.45	32.91
EBITDA Margin (%)	3.62	2.53
PAT Margin (%)	0.35	0.97
Overall Gearing Ratio (x)	0.81	0.72

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickworks review its rating under "Issuer not cooperating category" vide press release dated January 25, 2022.

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 January 4, 2021	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	45.00	IVR BBB- / Positive	IVR BBB- / Positive	-	-
2.	Letter of Credit	Short Term	15.00	IVR A3	IVR A3	-	-

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About Infomerics:

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Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	45.00	IVR BBB-/ Positive
Letter of Credit	-	-	-	15.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

Metallic-Ferro-lenders-feb22.pdf (infomerics.com)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.