Press Release

Metallic Ferro Alloys LLP

April 04, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00	IVR BBB/ Stable (IVR triple B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	25.00	IVR A3+ (IVR A three plus)	Reaffirmed	Simple
Total	**75.00 (Rupees seventy five 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) derives strength from long track record of operations coupled with experienced management and established relationships with reputed customers. The ratings also factors in its healthy financial position characterized by conservative leverage, robust debt coverage, adequate liquidity and efficient working capital management. These strengths are partially offset by thin profitability margins, risk inherent in partnership firm with instances of capital withdrawn and cyclicality inherent in metal industry.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of operations with improvement in profitability and cash accruals
- Improvement in the capital structure and debt protection metrics on a sustained basis
- Managing working capital requirement efficiently leading to improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Decline in the revenue and/ or profits leading to an overall deterioration in the financial risk profile of the company
- Moderation in the capital structure and/ or coverage indicators
- Elongation in the operating cycle with moderation in liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations coupled with experienced management**

Initially established in the year 1975 as a partnership firm with the name "M/S Metallic Alloys", Metallic Ferro Alloys LLP has a long track record of operations. Further, the partners have more than four decades of experience in the business of trading of ferro alloys. The partners' experience, their strong understanding of local market dynamics, and healthy relations with suppliers and customers will benefit the firm going forward, resulting in steady growth in the scale of operations.

- **Established relationships with reputed customers**

Metallic Ferro Alloys LLP has developed a strong relationship with its customers, which ensures regular sales. The major customer of the firm is Jindal group. The revenue of the firm witnessed a decline of ~25% to Rs. 633.03 Cr in FY2023 from Rs.853.70 Cr in FY2022 on account of dip in the ferro alloy industry, in lieu of downturn in the steel industry. Further, the firm has already achieved a revenue of Rs.441.06 Cr in 9MFY2024.

- **Healthy financial risk profile supported by comfortable leverage structure**

The capital structure of the firm remained comfortable with its satisfactory net worth base supported by its low reliance on external debt. The firm's adjusted tangible net worth witnessing steady growth on the back of increasing profit and healthy accretion of reserves and stood at Rs.70.83 crore as on March 31, 2023, as compared to Rs. 63.53 crore as on March 31, 2022. The unsecured loan of Rs.23.21 Cr has been considered as quasi equity as the same has been subordinated to bank's exposure. Gearing of the firm stood comfortable at 0.38x times as on March 31, 2023, as against 0.30x as on March 31, 2022. The Adjusted Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.94x as on March 31, 2023, as against 2.10x as on March 31, 2022. The debt protection metrics of the firm stood comfortable marked by Interest Coverage Ratio at 1.84x as on March 31, 2023, and Debt Service Coverage Ratio at 2.22x as on March 31, 2023. The total debt/EBITDA stood high at 2.19x as on March 31, 2023. The financial risk profile of the company will remain at similar level backed by steady accruals and no major debt funded capex plans in the medium term.

- **Efficient working capital management**

The working capital management of the firm is efficient marked by the comfortable operating cycle, which stood at 17 days as on 31st March 2023 as compared to 20 days as on 31st

March 2022. The operating cycle is predominantly driven by the low debtor and inventory level during the same period. The debtor period stood at 43 days as on 31st March 2023 as compared to 34 days as on 31st March 2022. Further, the inventory holding stood at 15 days as on 31st March 2023 same as on 31st March 2022. The working capital management of the firm will remain at similar levels over the medium term owing to the nature of the industry.

Key Rating Weaknesses

- **Thin profitability margin buoyed by decline in the steel prices**

The EBIDTA margin of the firm remained thin primarily attributable to low value additive trading nature of the business. Furthermore, the EBITDA margin stood at ~1.95% in FY2023 mainly due to lower average sales realisation which was driven by a sharp fall in the prices of steel in the fiscal year. However, the PAT margin of the firm increased to 1.40 per cent in FY2023 from 1.17 per cent in FY2022 due to receipt of duty drawback. Going forward, the improvement in the profitability margins of the firm will be a key rating monitorable.

- **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 inherent risk of dissolution of the firm upon death, retirement or insolvency of the partners.

- **Cyclicality inherent in metal industry which is expected to keep firm’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 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 witnesses steep decline in demand, leading to decrease in demand of ferro-alloys. The cyclicity is expected to remain going forward, which might 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the firm is adequate. The gross cash accruals stood at Rs.9.48 Cr as on March 31, 2023 as against long term debt repayment of Rs.0.60 Cr for the same period. The cash and bank balances of the group stood at Rs.1.38 Cr as on March 31, 2023. Further, the current ratio stood comfortable at 1.46x as on March 31, 2023 and the Quick Ratio also stood comfortable at 1.28x as on March 31, 2023. Again, the average fund-based limit utilisation remains high at around 18 per cent over the twelve months ended January 2024. Going forward, the firm is likely to maintain adequate liquidity position supported by steady accruals.

About the Company

Metallic Ferro Alloys LLP was originally established in the year 1975 as a partnership firm in the name "M/S Metallic Alloys" and later November 15, 2018, its constitution was changed to Limited Liability Partnership. The firm 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. 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. Currently, Mr. Mahesh Jhalani, Mr. Om Prakash Jhalani, Mr. Pratul Jhalani and Mr. Ankit Jhalani are the partners of the firm and oversees the day-to-day operations of the firm.

Financials: Standalone **(Rs. crore)**

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	853.70	633.03
EBITDA	15.83	12.34
PAT	10.05	8.90

For the year ended* / As On	31-03-2022	31-03-2023
Total Debt	19.35	27.08
Adjusted Tangible Net worth	63.53	70.83
EBITDA Margin (%)	1.85	1.95
PAT Margin (%)	1.17	1.40
Overall Gearing Ratio on Net Adjusted Tangible Net Worth (x)	0.30	0.38

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

Brickwork Rating continues the ratings of MFALLP into the Issuer Non-Cooperating category on account of inadequate information and lack of management cooperation in the rating procedure despite repeated follow ups as per the Press Release dated February 05, 2024.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 February 28, 2023	Date(s) & Rating(s) assigned in 2021-22 February 24, 2022
1.	Cash Credit	Long Term	50.00	IVR BBB/ Stable	-	IVR BBB/Stable	IVR BBB-/Positive
2.	Letter of Credit	Short Term	25.00	IVR A3+	-	IVR A3+	A3

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	50.00	IVR BBB/ Stable
Letter of Credit	-	-	-	25.00	IVR A3+

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-MetallicFerro-apr24.pdf

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.