Press Release

Metallic Ferro Alloys LLP

February 28, 2023

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Revised from IVR BBB-/ Positive (IVR Triple B minus with positive outlook)	Simple
Short Term Bank Facilities	25.00	IVR A3+ (IVR A Three Plus)	Revised from IVR A3 (IVR A Three)	Simple
Total	**75.00 (Rs. Sixty Crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Metallic Ferro Alloys LLP (MFALLP) takes into account the improvement in financial performance during FY22 and 9MFY23 (provisional) coupled with healthy debt protection metrics owing to lower debts. The ratings also continue to derive strength from its experienced partners with long track record, prominent client base with established relationship, satisfactory financial risk profile and prudent working capital management. However, these rating strengths are constrained by low operating margin due to low value addition, intense competition, exposure to forex risks, cyclicality with metal industry and exposure to risks involved in partnership.

Rating Sensitivities

Upward Factors

- Continuity of growth in scale of operations with improvement in profitability and cash accruals
- Sustenance of the capital structure with improvement in debt protection metrics
- 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
- Withdrawal of subordinated unsecured loan amounting to Rs.23 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

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Improvement in financial performance in FY22 and 9MFY23**

The total operating income of the firm has shown robust growth in FY22 growing by around 90%. The major driver for growth was rise in its volume sales on the back of increase in demand in the market coupled with higher sales realisation. Moreover, the performance of the firm for 9MFY23 has remained stable in line with the projections and FY22 financials.

- **Satisfactory financial risk profile leading to low gearing coupled with healthy net worth and debt protection metrics**

The firm has a satisfactory financial risk profile marked by overall gearing at 0.30x as on March 31, 2022 (0.72x as on March 31, 2021) mainly due to lower utilisation of cash credit limits coupled with increased net worth due to accretion of profits. However, the total indebtedness of the firm as reflected by TOL/ATNW has slightly moderated to 2.10x as on March 31, 2022 as against 1.23x in FY21 mainly due to rise in creditors which increased from Rs.22.76 crore in FY21 to Rs.108.04 crore in FY22 mainly due to growth in scale of operation.
The debt protection parameters continue to remain comfortable marked by total debt to GCA of 1.93 years and total debt to EBITDA at 1.21x as on March 31, 2022 mainly due to lower debts and increased EBITDA and GCA in absolute terms as a result of growth in scale of operation. The interest coverage ratio remains comfortable at 2.21x in FY22 (1.39x in FY21)

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

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. With long presence in the industry, the partners of the firm have gained extensive experience in ferro-alloy trading and has also established healthy relationship with its suppliers and key customers.

- **Established relationship with reputed customer**

MFALLP enjoys a longstanding and established relationship with its main customer, Jindal group. Jindal group contributes ~60% of MFALLP's overall sales through various companies which also indicates some degree of client concentration. Established relationship with key suppliers and customers has resulted in timely supply of materials and repeat orders.

- **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 due to intense competition in the operating spectrum. However, the firm has managed to reduce its working capital cycle with efficient management of collection and lower inventory built up. The collection period reduced to 34 days in FY22 as against 73 days in FY21. The inventory period also reduced to 15 days in FY22 which resulted in lower operating cycle of 20 days in FY22. Further, the firm's average working-capital utilization remained low at ~20% during last 12 months' period ended January 2023.

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. Moreover, the EBITDA margin has moderated in FY22 mainly due to higher purchase price due to rise in the price of raw materials which could not be completely passed on to the customers. The EBITDA margin for FY22 was 2.01% vis-à-vis 2.53% in FY21, whereas PAT margin remained at 1.17% in FY22 (P.Y- 1.26%)

- **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 ~22% (i.e., Rs.179.33 crore) of the firm's total procurement in FY22 (~28.85% in FY21). On the contrary the firm has exports accounted for ~22% (i.e.~Rs.189.90 crore) of its total sales in FY22 (~21% in FY21). Therefore, the firm enjoys benefits of natural hedging to some extent. Further, the firm also 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 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 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 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.

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

Given the constitution as a limited liability 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.

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 expected to remain adequate in the near to medium term marked by its expected satisfactory cash accruals against negligible debt repayment obligations. Further, with a gearing of 0.30 times as on March 31, 2022, the firm has sufficient gearing headroom, to raise additional debt. Further, the firm's average working-capital utilization remained low at ~20% for the trailing 12 months period ended January 2023 indicating an adequate liquidity buffer. As on March 31, 2022 the firm has an unencumbered cash balance to the tune of Rs.1.79 crore and fixed deposits of Rs.4.25 crore. Going forward the cash accruals of the firm is expected to remain sufficient against its debt repayment obligations.

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. 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. 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. 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.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited
Total Operating Income	449.47	855.03
EBIDTA	11.38	17.16
PAT	5.70	10.05
Total Debt	46.65	19.35
Tangible Net Worth	32.91	42.10
EBDITA Margin (%)	2.53	2.01
PAT Margin (%)	1.26	1.17
Overall Gearing Ratio (x)	0.72	0.30

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

<table>
<tr><th rowspan="3">Sl. No.</th><th rowspan="3">Name of Instrument/ Facilities</th><th colspan="3">Current Rating (Year 2022-23)</th><th colspan="3">Rating History for the past 3 years</th><th></th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Outstanding (Rs. Crore)</th><th rowspan="2">Rating</th><th rowspan="2">Date(s) & Rating(s) assigned in 2021-22 (Feb 24, 2022)</th><th colspan="2">Date(s) & Rating(s) assigned in 2020-21</th><th rowspan="2">Date(s) & Rating(s) assigned in 2019-20</th></tr>
<tr><th>(Jan 4, 2021)</th><th>(Dec 23, 2020)</th></tr>
<tr><td>1.</td><td>Cash Credit</td><td>Long Term</td><td>50.00</td><td>IVR BBB / Stable</td><td>IVR BBB-/ Positive</td><td>IVR BBB-/ Positive</td><td>IVR BBB-/ Positive</td><td>-</td></tr>
<tr><td>2.</td><td>Letter of Credit</td><td>Short Term</td><td>25.00</td><td>IVR A3+</td><td>IVR A3</td><td>IVR A3</td><td>IVR A3</td><td>-</td></tr>
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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facility

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-feb23.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