MDA Mineral Dhatu (AP) Private Limited
December 28, 2023

Ratings

Facility	**Amount (Rs. Crore)**	**Rating**	**Rating Action**	**Complexity Indicator**
Long-Term Bank Facilities (Including Proposed)	12.15	IVR BB; Stable (IVR Double B with Stable outlook)	Revised and removed from Issuer Not Cooperating category	Simple
Total	**12.15 (INR Twelve crore and fifteen lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has removed the ratings assigned to the bank facilities of MDA Mineral Dhatu (AP) Private Limited (MMDPL) from Issuer Not Cooperating category based on adequate information received from the company to review its ratings.

The revision in the rating assigned to the bank facilities of MMDPL derives strength from its experienced promoters, strategic location of the plant coupled average capital structure of the company with satisfactory debt protection metrics. However, these rating strengths remain partially offset by moderation in topline and profitability of the company in FY23, susceptibility of profitability to volatility in raw material and finished goods prices and exposure to customer concentration risk albeit low counterparty risk. Further, these rating strengths also remain constrained due to intense competition in its operating spectrum, working capital intensive nature of its operation and complete dependence of ferro alloys industry on the cyclical steel sector.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure and interest coverage ratio.
- Diversification in customer profile

Downward Factors

- More than expected decline in revenue and profitability leading to deterioration in GCA and debt protection metrics on a sustained basis.
- Any unplanned capex leading to impairment in the capital structure with moderation in overall gearing to over 2x and interest coverage below 5x.
- Stretch in the working capital cycle driven by pile-up of inventory or sizeable capital expenditure affecting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters**

The promoters have about a decade long experience in ferro-alloy business. Long standing presence of the promoters in the industry has resulted in established relationship with its customers and suppliers. Further, the promoters supported the business of MMDPL by infusing funds in the form of unsecured loans. Presently, the day-to-day operation of the company is managed by Mr. Vidhan Mittal (Director). He is ably supported by other board members and experienced key managerial personnel of the company.

- **Strategic location**

The manufacturing facility of the company is located in Vizianagaram district, Andhra Pradesh which is in close proximity to manganese ore mines (~50-60Km). This apart, it has easy accessibility to Visakhapatnam Port (~100-110Km) for importing the raw materials.

- **Average capital structure with satisfactory debt protection metrics**

The capital structure of the company has remained moderate marked by its moderate net worth base of Rs.13.85 crore as on March 31, 2023. The overall gearing stood moderate and improved to 1.57x as on March 31, 2023 as against 2.05x as on March 31, 2022 due to accretion of profit to reserves. Further, overall indebtedness of the company marked by TOL/TNW also stood moderate at 1.87x as on March 31, 2023 (2.59x as on March 31, 2022). However, the debt profile of the company mostly constitutes unsecured loan from the promoters to support the business operations and has very low reliance on external borrowings. Affected by the moderation in absolute EBITDA, the debt protection metrics indicated by interest coverage ratio has moderated yet remains satisfactory at 7.83x in FY23 (24.68x in FY22) due to low reliance on external borrowings. The moderation in interest coverage is due to lower absolute EBITDA in FY23.

Key Rating Weaknesses:

- **Susceptibility of profitability to volatility in raw material and finished goods prices**

The price of manganese ore, which is the main raw material for the company, is characterised by high volatility. As MMDPL does not have captive supply or long-term contracts with the suppliers, it procures manganese ore at market prices, which keeps its profitability exposed to volatility in raw material prices. Further, the company also import various grades of manganese ore from countries like Zambia, Ivory Coast, Brazil, Australia etc. based on its requirements. The unhedged position MMDPL remain exposed to currency fluctuation risk. Further, the realisations of ferro-alloys are linked to the demand from the steel industry and competition from other key players in the international market, hence, it is also exposed to volatility in finished goods prices. Further, the ferro alloys manufacturing operations involve limited value addition. Limited value addition with lower level of backward integration has a bearing on the profit margins of the company. Low sales realisations vis-à-vis increasing cost of operations has resulted in operating loss for the company.

- **Moderation in topline and profitability in FY23**

The total operating income (TOI) of the company has witnessed an erratic trend over the last three years with TOI increased from ~Rs.44.21 crore in FY21 to ~Rs.85.19 crore in FY22. However, the topline has marginally moderated in FY23 to ~Rs.83.19 crore affected by lower sales realisation of Ferro silico Manganese. Driven by the moderation in topline, coupled with high raw material, power tariff and other operating costs, the absolute EBITDA of the company has declined to Rs.3.63 crore in FY23 against Rs.14.24 crore in FY22. Consecutively, the operating margin has moderated from 16.66% in FY22 to 4.37% in FY23. PAT margin moved in tandem with the operating margin and declined to 2.41% in FY23 against 10.32% of FY22. Further, in H1FY24 the owing to scheduled maintenance the unit was completely shut down for two months and till November,2023 the company has managed to churn out revenue of ~Rs.25 crore.

- **Exposure to customer concentration risk albeit low counterparty risk**

The company is exposed to customer concentration risk as over 90% of the revenue in FY23 came from top five customers. Further, a single customer, Mortex (India) is a one of the leading trader/exporters of ferro alloys, remains the major customer which contributed

~Rs.47 crore (~56%) of total FY23 sales of Rs.83.19 crore. MMDPL has long and established relationship with Mortex which reduces the concentration risk to an extent.

- **Intense competition and complete dependence of ferro alloys industry on the cyclical steel sector**

The demand for ferro alloys is a derived demand and its prospects are closely linked to the demand emanating from the steel industry which is the major purchaser of ferro alloys. Ferro/Silica Manganese products are used in the production of steel as deoxidizer and desulfurizer and the ferro alloy industry act as an intermediate industry to the iron and steel industry. Hence, the demand and prices of ferro alloys depend on and follow the production and consumption of steel. The steel industry is sensitive to the shifting business cycles to a large extent. Exposing the company to the cyclicality inherent in the steel industry. Further, the industry is highly fragmented with presence of large number of organised and unorganised players owing to low entry barriers and no product differentiation resulting in stiff competition and pricing pressure among players in the industry.

- **Working capital intensive nature of operation**

The operations of the company are working capital intensive mainly due to its strategy to procure Manganese ore in bulk to get better rates and discounts leading to higher inventory days. The operating cycle of the company remained moderate with 80-100 days during FY21-FY23. The company managed its receivable cycle well as majority of sales being made on cash and carry basis. Further, the working capital requirement of the company was mainly funded by the unsecured loans brought in by the promoters. Lower utilisation of bank limits indicates adequate buffer in times of stress.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy on default recognition

Liquidity: Adequate

The liquidity of the company is expected to be adequate in near term driven by lower reliance on external debt, nil term debt repayment obligation and the company's policy of funding its working capital requirements through its own sources. Further, the liquidity position is also backed by adequate buffer in its working capital borrowing limits coupled with the support from resourceful promoters in the form of unsecured loan.

About the Company

Incorporated in 2010, MDA Mineral Dhatu (AP) Pvt Ltd was promoted by Mr. Vijay Mittal and Mr. Vidhan Mittal (son of Mr. Vijay Mittal). The company started its commercial operations from August 2013 and is engaged in manufacturing of High carbon ferro manganese, ferrosilicon and silicon manganese with its 6MVA (5MW) ferro-alloy submerged electric arc furnace located at Bobbili of Vizianagaram district, Andhra Pradesh.

Financials of MDA Mineral Dhatu (AP) Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	85.49	83.19
EBITDA	14.24	3.63
PAT	8.84	2.02
Total Debt	24.23	21.74
Tangible Net worth	11.82	13.85
EBITDA Margin (%)	16.66	4.37
PAT Margin (%)	10.32	2.41
Overall Gearing Ratio (x)	2.05	1.57
Interest Coverage	24.68	7.83

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Jan 25, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Nov 02, 2021)	Date(s) & Rating(s) assigned in 2020-21 (Sep 01, 2020)
1.	Cash Credit	Long	12.15	IVR BB/	IVR B+/	IVR BB-/	IVR BB/

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	(Including proposed limit of Rs.0.15 crore)	Term		Stable	Negative, INC*	INC*	INC*

***** Issuer Not Cooperating based on best available information

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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	12.00	IVR BB/ Stable
Long Term Fund Based Limits –Proposed	-	-	-	0.15	IVR BB/ Stable

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-MDA-dec23.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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