



Press Release

Metallic Ferro Alloys LLP.

January 04, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facilities	45.00 (enhanced from Rs. 20.00)	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Reaffirmed
2.	Short Term Non-Fund Based Bank Facilities	15.00 (enhanced from Rs.5.00)	IVR A3 (IVR A Three)	Reaffirmed
	Total	60.00 (Rs. Sixty crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Metallic Ferro Alloys LLP (MFALLP) continues to derives comfort from its long track record of operations under experienced promoters, established relationship with reputed customers, prudent working capital management and satisfactory financial risk profile marked by comfortable gearing ratio and healthy debt protection metrics. These rating strengths are partially offset by its low operating margin, exposure to forex risk, fragmented nature of the industry with intense competition, cyclicality 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 the near term.

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 1.75x.
- Manage working capital requirement efficiently with improvement in collection period and liquidity.

Downward Factors



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- Moderation in the scale of operations of the firm and/or moderation in profitability.
- Withdrawal of subordinated unsecured loan amounting to Rs.18.08 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

- **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 ~51% of MFALLP's overall sales through various companies which also indicates some degree of client concentration.

- **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.48.53 crore as on March 31, 2020 (considering subordinated unsecured loan of ~Rs.18 crore as quasi equity). The debt profile of the firm mainly comprises fund based working capital limits. Further, there was a steady decrease in total debt from Rs.51.17 crore in FY19 to Rs.39.07 crore in FY20 mainly attributable to lower utilisation of working capital limits as on the account closing date of FY20. With decline in total debt level, the overall gearing ratio of the firm remained comfortable at 0.81x as on March 31, 2020 (1.03x as on March 31, 2019). Total indebtedness of the firm as reflected by TOL/ANW also remained comfortable though declined marginally to 2.29x as on March 31, 2020 (1.80x as on March 31, 2019) mainly due to instances of withdrawal of capital by the partners during FY20. The debt protection parameters also remained stable over the past three fiscals. Further, the interest coverage ratio improved to 1.51x (1.42x n FY19) and total debt to EBITDA at 2.44x as on March 31, 2020



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(4.07x as on March 31, 2019). The interest coverage ratio further improved and remained satisfactory at 1.64x in H1FY21.

- **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 85 days in FY20 (76 days in FY19) attributable to the industry demand scenario. In order to manage its working capital requirements, for ~60%-70% of its sales the firm enters into back-to-back arrangements and uses bill discounting limit besides credit period availed from its creditors in the range of 40-50 days. Further, the firm's average working-capital utilization remained low at ~21% for the trailing 12 months' period ended October 2020 and gross current asset days remained moderate at 119 days in FY20 (103 days in FY19).

Key Rating Weaknesses

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

The firm's overall operating margin has varied in the range of 2.7-3.6% over the past three fiscals ending in FY20 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 witnessed an increase in FY20 mainly due to increase in relatively high margin export sales and few high profit opportunity-based sale transactions.

- **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**



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Imports accounted for ~17.5% (i.e., ~Rs.58 crore) of the firm's total procurement in FY20 (~13% in FY19) on the other hand company has exports accounted for ~13% (i.e., ~Rs.64 crore) of its total sales in FY20 (~12% in FY19). Therefore, the company enjoys benefits of natural hedging. Further, the firm also adopts forward contracts to manage its forex risk. As on September 30, 2020 net unhedged foreign exchange position remained minimal at Rs.0.34 crore. 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 total operating income of the firm remained erratic over the past three fiscals and following a growth of ~13% in FY19 witnessed moderation by ~4% in FY20. Despite increase in sales volume in FY20, the moderation in total operating income was mainly due to lower sales realization of its traded products and 15-20 days of lockdown during March, 2020. 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. During H1FY21, the firm has achieved a revenue of ~Rs.279 crore.

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

Any substantial capital withdrawal, given the partnership nature of the firm's constitution, could impact the net worth and the gearing level. The firm has instances of capital withdrawn in FY19 and in FY20. However, the partners undertake to maintain a minimum capital aggregating to Rs.35.47 crore in FY21 and Rs.41.73 crore in FY22 (vide an undertaking submitted to us dated December 12,2020).



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of MFALLP 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 0.81 times as on March 31, 2020, the firm has sufficient gearing headroom, to raise additional debt. Further, the firm’s average working-capital utilization remained low at ~21% for the trailing 12 months’ period ended October 2020 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):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	460.54	442.40
EBITDA	12.73	16.01
PAT	1.99	1.53
Total Debt	51.85	39.07
Tangible Net worth	32.40	30.45
EBITDA Margin (%)	2.76	3.62



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PAT Margin (%)	0.43	0.35
Overall Gearing Ratio (x)	1.03	0.81

*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 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	45.00 (enhanced from Rs. 20.00)	IVR BBB-/Positive	IVR BBB-/Positive (Dec 23,2020)	-	-	-
2.	Letter of Credit	Short Term	15.00 (enhanced from Rs. 10.00)	IVR A3	IVR A3 (Dec 23,2020)	-	-	-

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.

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About Infomerics:

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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Long Term Fund Based Limits – Cash Credit	-	-	-	45.00 (enhanced from Rs.20.00)	IVR BBB-/Positive
Short Term Non-Fund Based Limits - LC	-	-	-	15.00 (enhanced from Rs.10.00)	IVR A3