

Press Release
NILKA NTH FERRO LIMITED
January 31, 2022
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.40	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	48.60	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	84.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE BBB+**' (**read as ACUITE Triple B plus**) and the short term of '**ACUITE A2**' (**read as ACUITE A two**) to the Rs 84.00 Cr bank facilities of Nikanth Ferro Limited (NFL). The outlook is '**Stable**'.

The rating factors in Acuité's expectation that NFL will record a strong operational performance over the medium term. The company is likely to register healthy revenue growth along with a significant improvement in profit margin in the current financial year. The revenue growth will be driven by substantial rise in both sales volume and average realization of ferro alloys. The improvement in profit margin is due to low power cost as company has received a hefty amount of refund from its power supplier. The refunded amount will be adjusted with energy bills which will reduce the power cost. In addition, the company has a conversion agreement with Tata steel Ltd which partially mitigates the offtake risk. However the ratings are constrained by company's working capital intensive nature of operations.

About the Company

Nilkanth Ferro Limited was incorporated by Mr. Ram Avatar Sharma in 2004. The company is engaged in manufacturing of ferro manganese and silico manganese. The company has a production facility in Durgapur, West Bengal with an installed capacity of 43,200 MT per annum

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NFL to arrive at the rating.

Key Rating Drivers

Strengths

Experience management

NFL is promoted by Mr. Sharma who possesses almost two decades of experience in ferro alloys industry. The company has strong customer base which includes reputed steel players such as SAIL, Tata Steel Ltd, Rashmi Metaliks Pvt Ltd among others. The company is associated with Tata steel Ltd(TSL) since 2010 through a conversion agreement which is valid

till March 2023. As per agreement, NFL converts manganese ore to silico manganese and derives conversion charges. In FY21, almost 75 percent of revenue comes from own sales

followed by 23 percent from conversion business and remaining 2 percent from trading activity. Acuité believes that the extensive experience of the promoter would continue to help in the business risk profile of the company going forward.

Comfortable financial risk profile

The financial risk profile of the company is marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth of the company stood at Rs. 54.53 Cr in FY2021 as compared to Rs. 50.87 Cr in FY2020. The gearing of the company stood low at 0.37 times as on March 31, 2021 as compared to 0.47 times as on March 31, 2020 due to decline in their debt level. The company has low reliance on fund based limit as reflected from its minimal utilization of fund based limits. TOL/TNW stood at 1.22 times in FY21 as against 1.13 times in FY20. Interest coverage ratio (ICR) stood at 2.07 times in FY2021 as against 2.46 times in FY 2020. The debt service coverage ratio (DSCR) stood at 1.91 times in FY2021 as against 2.14 times in FY2020. The net cash accruals against total debt (NCA/TD) stood at 0.26 times in FY2021 as compared to 0.21 times in previous year. Acuité believes the financial risk profile of the company will improve over the medium term backed by improving trend in accruals and the absence of any large debt-funded capex plan over the medium term.

Healthy revenue growth along with improvement in profitability margin in FY22

The company had witnessed a decline in scale of operation as revenue stood at Rs 161.07 Cr. in FY21 as against Rs 181.69 Cr in FY20 due to decline in trading activity. The company is expected to witness strong revenue growth in FY22 backed by significant rise in average realization and sale volume of ferro alloys because of increasing demand from steel makers. The company has recorded revenue of around Rs 200 Cr till December 2021 (provisional). However the scale of operation is expected to remain at similar level over the medium term in the absence of any significant expansion plan. The profit margin of the company had witnessed a marginal improvement as reflected from its EBITDA margin of 6.77 percent in FY21 as against 5.63 percent in FY20. The profitability margin is expected to witness significant improvement as the company has already posted EBITDA margin of about 9 percent during 9MFY22 (provisional). The company has received refund of Rs 30.00 Cr from Damodar Valley Corporation after adjustment of old dues. The same will be adjusted with monthly energy bills in 24 installments which will reduce overall power cost and improve its profit margin. Acuité believes the profitability will remain at healthy level over medium term on account of buoyancy in the steel industry.

Weaknesses

Working capital intensive operations

The company has high working capital intensity as evident from its gross current asset (GCA) days of 195 days in FY'21 as compared to 157 days in the previous year. The GCA days are high due to extended debtor days of 83 days in FY21 as against 42 days in the preceding year. The debtors stretched due to delayed payments from reputed corporates who have strong negotiation power. The inventory days also stood high at 106 days in FY21 as against 95 days in FY20. The company always maintains a large inventory of raw material to ensure smooth functioning. Acuité believes that the operations of the company will continue to be working capital intensive because of stretched receivables and high inventory level.

Rating Sensitivities

- Sustenance of the revenue growth and improvement in profitability parameters
- Improvement in financial risk profile

Material covenants

None

Liquidity profile: Adequate

The company has adequate liquidity as reflected from low utilization of working capital limits of around 45 percent during the past 9 months ended December 2021. The liquidity position is enhanced from the comfortable net cash accrual of Rs. 5.22 Cr during FY21 as against current maturity of 2.49 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 12-Rs 14 Cr as against current maturity of around Rs.3 Cr from FY22-FY23. Current ratio stood

comfortable at 1.46 times during FY21. The cash & bank balance stood at 2.99 Cr as on 31.03.2021. Acuite believes the liquidity position of the company will remain adequate backed by steady accrual over the medium term.

Outlook : Stable

Acuité believes the outlook on company will remain 'Stable' over the medium term backed by its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' if the company is able to improve its scale of operations significantly while sustaining their financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue growth or deterioration in capital structure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	161.07	181.69
PAT	Rs. Cr.	3.66	3.49
PAT Margin	(%)	2.27	1.92
Total Debt/Tangible Net Worth	Times	0.37	0.47
PBDIT/Interest	Times	2.07	2.46

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	18.60	ACUITE A2 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.06	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	01-10-2021	7.40	01-10-2024	4.68	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	30-12-2020	7.40	01-07-2022	0.66	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

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