

**Press Release**  
**Nilkanth Ferro Limited**

**January 06, 2023**

**Rating Reaffirmed**



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Total Withdrawn Quantum (Rs.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

**Rating Rationale**

Acuite has reaffirmed the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 84.00 Cr bank facilities of Nilkanth Ferro Limited (NFL). The outlook remains '**Stable**'.

**Rationale for the rating**

The rating factors in the company's steady business risk profile marked by the growing scale of operations, established clientele relationships and the offtake agreement with Tata Steel Limited. The rating also takes into cognizance the above average financial risk profile of NFL as reflected by the comfortable leverage ratios. However, the rating is constrained by the moderate working capital management of the company and the highly fragmented industry.

**About the Company**

Incorporated in 2004, Nilkanth Ferro Limited (NFL) is managed by Mr. Ram Awatar Sharma. Based in Durgapur, West Bengal, the company is engaged in the manufacturing of ferro manganese and silico manganese with current production capacity of 43200 MTPA. NFL has tie-up with Tata Steel Limited (TSL) for supplying ferro alloys.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of NFL to arrive at the rating.

**Key Rating Drivers**

**Strengths**

- Experienced management and strong customer base

NFL has developed a strong customer base over the years with the assistance of its management and is headed by Mr. Ram Awatar Sharma having over two decades of experience in the ferro alloys industry. The company's clientele base includes leading steel

producers such as SAIL Ltd, Tata Steel Ltd, Lalwani Ferro Alloys Ltd, among others. Acuité believes that, going forward, the management's support and the reputed clientele base will continue to aid the operations of the company.

- **Steady business risk profile supported by association with TSL**

NFL is associated with Tata steel Limited (TSL) since 2010 through a conversion agreement for supplying 12000 to 24000 MTPA of ferro alloys for TSL's captive consumption by converting manganese ore to silico manganese and derives conversion charges. Further, the company witnessed substantial improvement of around 86 per cent in the scale of operations and has achieved revenues of Rs.299.77 Cr in FY2022 as compared to Rs.161.07 Cr in FY2021. The rise in the operating income is primarily attributed to the increase in the average realizations over the same period owing to the strong demand from steel players with restricted alloy supplies. Also, increase in the production capacity utilisation of NFL added to the rise in revenues. Further, the company has reported revenues of Rs.152.60 Cr in H1 FY2023 (provisional). Acuite believes the company's business risk profile will remain around similar levels over the medium term going forward, on account of the comfort it derives from the off-take agreement with Tata Steel Limited.

The operating margin of the company stood healthy at 11.63 per cent in FY2022 as against 6.77 per cent in FY2021. The increase in operating margin is on account of cost rationalization. Along with that, the company benefitted from the adjustment of power cost as it is eligible for a total of Rs.30 Cr of refund from Damodar Valley Corporation adjusted with the monthly energy bill in 24 instalments. However, Acuite believes the profit margin of the company is expected to be volatile over the medium term owing to fluctuations in the raw material (manganese ore, silicon ore, coal) prices.

- **Above average financial risk profile**

The company has an above average financial risk profile marked by its comfortable gearing, healthy debt protection metrics and improving net worth. The tangible net worth of the company increased to Rs.77.84 Cr as on March 31, 2022 from Rs.54.53 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood low at 0.21 times as on March, 2022 as compared to 0.37 times as on March, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 1.21 times as on March 31, 2022 as against 1.22 times as on March 31, 2021. Moreover, the healthy debt coverage indicators marked by Interest Coverage Ratio (ICR) at 11.29 times as on March 31, 2022 as compared to 2.07 times as on March, 2021 and Debt Service Coverage Ratio at 4.93 times as on March 31, 2022 as compared to 1.91 times as on March, 2021. The improvement in the credit metrics is due to momentous rise in the revenues along with considerable reduction in the debt burden of the company. The Net Cash Accruals/Total Debt (NCA/TD) stood high at 1.54 times as on March 31, 2022. Acuité believes that the financial risk profile of the company will continue to remain above average over the medium term, in absence of any major debt funded capex plans.

## **Weaknesses**

- **Moderate working capital requirement**

The company's moderate working capital requirement is marked by improving Gross Current Assets (GCA) of 119 days as on March 31, 2022 as against 195 days as on March 31, 2021. The moderate GCA days are primarily on account of the inventory holding which stood at 75 days as on March 31, 2022 as against 106 days as on March 31, 2021. The company holds inventory for a period of 2 to 2.5 months in order to mitigate the supply risk. However, the debtor days improved and stood comfortable at 44 days as on March 31, 2022 as compared to 83 days as on March 31, 2021. NFL receives advance payments from other customers and TSL makes payment to the company within 45-60 days. Acuité believes the working capital requirement is likely to remain similar over the medium term on account of the efficient collection

mechanism and modest inventory holding.

- **Highly fragmented and intensely competitive industry**

The ferro alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large size players in the industry. The presence of a large number of players has a direct impact on pricing and restricts bargaining power thereby, having an adverse impact on margins.

### **Rating Sensitivities**

- Growth in the scale of operations along with improving profitability margins
- Sustenance of the capital structure
- Elongation of the working capital cycle

### **Material covenants**

None

### **Liquidity position: Adequate**

The company's liquidity profile stood adequate as reflected from the net cash accruals of Rs.24.90 Cr in FY2022 as against long term debt repayment of Rs.2.49 Cr over the same period. The fund based limit is moderately utilized at 76 per cent over the six months ended October, 2022. The current ratio stood moderate at 1.32 times as on 31st March, 2022 as compared to 1.46 times as on 31st March, 2021. The cash and bank balances of the company stood at Rs.2.21 Cr as on 31st March, 2022 as compared to 2.99 times as on 31st March, 2021. However, the working capital management of the company is moderate in nature marked by Gross Current Assets (GCA) of 119 days in FY2022 as compared to 195 days in FY2021 due to the modest inventory holding. Acuité believes the company will maintain adequate liquidity position over the medium term backed by healthy cash accruals.

### **Outlook: Stable**

Acuité believes the outlook on NFL will remain 'Stable' over the medium term backed by its experienced management, established clientele base, tie up with TSL and the above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins or deterioration in the financial risk profile or elongation in the working capital cycle.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	299.77	161.07
PAT	Rs. Cr.	23.31	3.66
PAT Margin	(%)	7.78	2.27
Total Debt/Tangible Net Worth	Times	0.21	0.37
PBDIT/Interest	Times	11.29	2.07

### **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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Jan 2022	Proposed Bank Facility	Long Term	2.06	ACUITE BBB+   Stable (Assigned)
	Bank Guarantee	Short Term	18.60	ACUITE A2 (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB+   Stable (Assigned)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB+   Stable (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	0.66	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	4.68	ACUITE BBB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	18.60	ACUITE A2   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB+   Stable   Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A2   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.40	ACUITE BBB+   Stable   Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB+   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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