



Press Release
Nilkanth Ferro Limited
February 29, 2024

Rating Assigned, Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.42	ACUITE BBB Stable Downgraded	-
Bank Loan Ratings	5.00	-	ACUITE A2 Assigned
Bank Loan Ratings	53.58	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	89.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from **ACUITE BBB+** (read as **ACUITE triple B plus**) and reaffirmed 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**'.

Acuite has assigned the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 5.00 Cr bank facilities of Nilkanth Ferro Limited (NFL). The outlook is '**Stable**'.

Rationale for downgrade

The rating is downgraded on account of deterioration in operating performance of NFL, marked by decline in scale of operations and profitability margins. The turnover of NFL stood at Rs.266.86 Cr in FY2023 as against Rs.299.77 Cr in FY2022. The decrease in turnover is due to fall in demand and realisation prices. The operating margin declined and stood at 1.77 percent in FY2023 as against 11.63 percent in FY2022 and 6.77 percent in FY2021. The sharp decline in operating margins is primarily due to significant increase in input material prices. NFL reported turnover of Rs.141.71 Cr for 9MFY2024.

The financial risk profile of the company moderated in FY2023 with deterioration in debt coverage indicators. The Interest Coverage Ratio (ICR) stood at 2.83 times in FY2023 as compared to 11.29 times in FY2022 and Debt Service Coverage Ratio stood at 1.52 times in FY2023 as compared to 4.93 times in FY2022. The rating continues to draw comfort from experienced management with strong customer base. However, the rating is constrained by the moderately intense working capital cycle of the company and highly fragmented and competitive 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Nilkanth Ferro

Limited (NFL) to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management with 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. The operating income of NFL moderated in FY2023 and stood at Rs.266.86 Cr as compared to Rs.299.77 Cr in FY2022. The operating margin in FY2022 stood at 11.63%. FY2022 was an exceptional year for Silico and Ferro Manganese industry primarily due to high demand from the export markets on account of Russia-Ukraine war leading to steep increase in demand and prices. The prices and demand slowed down thereafter, leading to decline in scale of operations and profitability levels thereafter. The operating margin of the company declined and stood at 1.77 per cent in FY2023. The current levels are significantly lower than prior to war scenario. The operating margin stood at 6.77 percent in FY2021. The sharp decline in FY2023 is primarily due to significant increase in input material prices. The PAT margin stood at 0.97 percent in FY2023 as against 7.78 percent in FY2022 and 2.27 percent in FY2021. In 9MFY2024, company achieved the turnover of Rs.141.71 Cr and expects to generate turnover in the range of Rs.215 -225 Cr in FY2024.

Acuite believes the profit margin of the company is expected to be volatile over the medium term owing to fluctuations in the raw materials price (manganese ore, silicon ore coal).

Moderate financial risk profile

The company has a moderate financial risk profile marked by its comfortable gearing, moderate debt protection metrics and improving net worth. The tangible net worth of the company increased to Rs.80.42 Cr as on March 31, 2023 from Rs.77.84 Cr as on March 31, 2022 due to accretion of reserves. Gearing of the company stood low at 0.26 times as on March 31, 2023 as compared to 0.21 times as on March, 2022, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.80 times as on March 31, 2023 as against 1.21 times as on March 31, 2022. However, the Debt/EBITDA deteriorated and stood at 2.67 times as on March 31 2023 as against 0.44 times as on March 31 2022. Further, the debt coverage indicators moderated marked by Interest Coverage Ratio (ICR) at 2.83 times as on March 31, 2023 as compared to 11.29 times as on March, 2022 and Debt Service Coverage Ratio at 1.52 times as on March 31, 2023 as compared to 4.93 times as on March, 2022. The deterioration in the credit metrics is due to decline in operating margin of the company. The Net Cash Accruals/Total Debt (NCA/TD) stood moderate at 0.20 times as on March 31, 2023.

Acuite believes that the financial risk profile of the company will continue to remain moderate over the medium term, in absence of any major debt funded capex plans.

Weaknesses

Moderately intense working capital cycle

The company's moderately intense working capital cycle is marked by improving Gross Current Assets (GCA) of 89 days as on March 31, 2023 as against 119 days as on March 31, 2022. The GCA days are primarily on account of the inventory holding which comparatively reduced and stood at 59 days as on March 31, 2023 as against 75 days as on March 31, 2022. The company holds inventory for a period of 2 to 2.5 months in order to mitigate the supply risk. However, the debtor days stood comfortable at 32 days as on March 31, 2023 as compared to 44 days as on March 31, 2022. The creditor days of the company is high and stood at 81 days as on March 31 2023 as against 96 days as on March 31 2022.

Acuite 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
- Any elongation of the working capital cycle leading to deterioration in liquidity position.

Liquidity Position: Adequate

The company's liquidity profile stood adequate as reflected from the net cash accruals of Rs.4.31 Cr in FY2023 as against long term debt repayment of Rs.1.89 Cr over the same period. The fund based limit is moderately utilized at 76.20 per cent over the six months ended December, 2023. The current ratio stood moderate at 1.77 times as on 31st March, 2023 as compared to 1.32 times as on 31st March, 2022. The cash and bank balances of the company stood at Rs.2.33 Cr as on 31st March, 2023. However, the working capital management of the company is moderate in nature marked by Gross Current Assets (GCA) of 89 days in FY2023 as compared to 119 days in FY2022 due to the modest inventory holding. Acuité believes the company will maintain adequate liquidity position over the medium term backed by backed by adequate cash accruals as against the repayment obligations.

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 moderate 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	266.86	299.77
PAT	Rs. Cr.	2.58	23.31
PAT Margin	(%)	0.97	7.78
Total Debt/Tangible Net Worth	Times	0.26	0.21
PBDIT/Interest	Times	2.83	11.29

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

Not Applicable

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jan 2023	Cash Credit	Long Term	25.00	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	4.40	ACUITE BBB+ Stable (Reaffirmed)
	Stand By Line of Credit	Long Term	3.00	ACUITE BBB+ Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	3.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	18.60	ACUITE A2 (Reaffirmed)
31 Jan 2022	Bank Guarantee (BLR)	Short Term	18.60	ACUITE A2 (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)
	Stand By Line of Credit	Long Term	3.00	ACUITE BBB+ Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	2.06	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	25.00	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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	19.58	ACUITE A2 Reaffirmed
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A2 Assigned
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BBB Stable Downgraded (from ACUITE BBB+)
State Bank of India	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2025	Simple	1.48	ACUITE BBB Stable Downgraded (from ACUITE BBB+)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	34.00	ACUITE A2 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.94	ACUITE BBB Stable Downgraded (from ACUITE BBB+)
State Bank of India	Not avl. / Not appl.	Stand By Line of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE BBB Stable Downgraded (from ACUITE BBB+)

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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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