

**Balasure Alloys Limited** (Revised)

August 11, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	90.00	CARE D	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short term Bank Facilities	95.30	CARE D	Revised from CARE A4 (A Four)
<b>Total</b>	<b>185.30</b> (Rs. One hundred eighty five crore and thirty lacs only)		

*Details of instruments/facilities in Annexure-1*

*For classification of instruments/facilities please refer to Annexure-3*

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Balasure Alloys Limited (BAL) takes into account the delays in debt servicing of the facilities of the company along with decline in capacity utilization and cash losses reported in FY20 (refers to the period April 01 to March 31). The ratings continue to be constrained by absence of captive source of power and coal, sourcing of chrome ore from open market, delay in underground mining project, on-going disputes, foreign exchange fluctuation risk and complete dependence of the Ferro chrome industry on cyclical steel sector. The ratings continue to draw comfort from the experience of promoters, presence of captive chrome ore mine, strong presence in the export market and comfortable capital structure.

**Rating Sensitivities****Positive Factors**

- Default free track record of 90 days
- Efficiently manage its liquidity and working capital requirements
- Resolution of the various pending disputes
- Increase in scale of operations and turnaround in operating profitability on a sustained basis

**Detailed description of the key rating drivers****Key Rating Weaknesses**

**Delays in debt servicing:** As per the interaction with one of the banks, there is devolvement of LC and the same has been debited to the company's cash credit account and as a result of which the cash credit account is overdrawn for more than 30 days.

**Decline in capacity utilization and cash losses reported in FY20:** The capacity utilization declined from 92% in FY19 to 69% in FY20 on account of lower demand of ferro chrome. BAL's total operating income declined 39% y-o-y to Rs.767.46 crore in FY20 (Rs.1258.06 crore in FY19). The company reported operating loss in FY20 on account of increase in power cost and under-absorption of fixed overheads.

<sup>2</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

The company has serviced interest expenses out of advances from customers and infusion of unsecured loans.

**Absence of captive source of power and coal:** The production process of Ferro Alloy is highly power intensive and therefore the cost of the power is critical to the competitiveness of the products. BAL does not have any captive power plant and sources its power requirements mainly from North Eastern Electric Supply Company of Odisha Ltd. (NESCO). Accordingly, absence of captive source of power has rendered BAL's operations vulnerable to any upward revision in electricity tariff rates. Further in Q1FY21, the electricity supply was disrupted and the plant was operational only for 20 days. Coal & LAM Coke formed about 15% of the total cost of sales in FY20 after power cost (33%) and chrome ore (33%). Volatile nature of coal prices and chrome ore leads to profitability of the company vulnerable to such changes.

**Presence of captive chrome ore mine albeit sourcing of chrome ore from open market:** Chrome ore is a major raw material for ferro-chrome (FeCr) production and therefore, sourcing and pricing of the same remains crucial for FeCr producers in order to sustain operational profitability. BAL has its own operational captive chrome ore mine at Sukinda valley (Jajpur), Odisha. With the mines providing low outputs from open cast mining, BAL started sourcing Chrome ore from outside market. However the sourcing of chrome ore from outside market has declined to 13% in FY20 as against 30% in FY19.

**Delay in underground mining project:** BAL is planning to undertake underground mining at later stage and has incurred about Rs.255.76 crore in the underground mining project till Mar-2020 which is funded out of its own sources for conducting the feasibility study & development of underground mines. The company has reworked its Underground mining plan and now decided to start decline at +45mRL which is cost effective and less time consuming. The management is expecting to extract chrome ore through Underground mechanism before fully exhausting chrome ore through open cast and boundary pillar mining method.

**On-going disputes:** The Company has on-going disputes with Mining authorities of Jajpur and State Trading Corporation of India, NESCO which are pending before various courts & authorities.

**Foreign exchange fluctuation risk:** The exports are hedged through forward exchange contracts. On the other hand, BAL is exposed to forex risk due to import of coal & coke. In FY20, the company reported forex loss of Rs.4.50 crore as against forex loss of Rs.28.49 crore in FY19.

**Complete dependence of ferro chrome industry on the cyclical steel sector:** The stainless steel industry is the primary consumer of FeCr and accordingly the fortunes of FeCr manufacturers are largely dependent on the performance of the stainless steel industry. The volatile nature of FeCr prices has a significant impact on the profitability of the companies in the sector.

### Key Rating Strengths

**Experienced promoters:** Ispat group, promoted by Mr. M. L. Mittal started trading of steel products in 1981. BAL, a part of Ispat group, commenced operations in 1987. Accordingly, the promoters of the company have an experience of about three decades in operating / managing ferro chrome plants. Currently, the day to day affairs are managed by Mr. Anil Sureka (the present MD of BAL) having over three decades of corporate experience.

**Strong presence in the export market:** Export constitutes ~79% of total revenue of BAL in FY20 (~79% in FY19).

**Comfortable capital structure:** The capital structure of BAL slightly deteriorated but remained comfortable marked by overall gearing ratio at 0.28x as on March 31, 2020 (0.22x as on March 31, 2019).

**Industry Outlook:** Steel demand for FY21 is expected to be significantly lower with June and September quarters to be badly impacted due to lower demand from the infrastructure and construction segments. Domestic steel manufacturers will also keep their production in line with demand and steel demand is expected to reduce sharply by 15-20% during FY21 (99.2 mt in FY20) on a y-o-y basis as lockdowns have been more stringent and prolonged in India.

#### Liquidity: Poor

The company has generated cash loss of Rs.67.00 crore in FY20. Cash and bank balance as on March 31, 2020 stood at Rs.3.61 crore. The company has serviced interest mainly pertaining to banks of Rs.15.71 crore and debt repayment obligations of Rs.6.17 crore out of advances from customers and infusion of unsecured loans. Further, the company has also availed deferment of interest on cash credit facility till August 31, 2020 which was pre-approved by the Bank as per the RBI's Covid Relief Measure.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Complexity Level of Rated Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

#### About the Company

Balasore Alloys Limited (BAL), incorporated in May, 1984, is a part of Kolkata-based Ispat group of companies promoted by Mr. M. L. Mittal. BAL commenced commercial operations in 1987 with production of ferro-chrome (FeCr). The company has its own captive chrome ore mine located at Sukinda valley (Jajpur) in Odisha. The manufacturing facilities of BAL are located in Balasore (Odisha) with an installed capacity of 1,45,000 tpa and in Sukinda (Odisha) with an installed capacity of 15,660 MTPA for ferro chrome. BAL has two chrome ore beneficiation plant, a chrome ore briquetting plant and a metal recovery plant.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1258.06	767.46
PBILDT	68.22	-ve
PAT	-ve	-ve
Overall gearing (times)	0.22	0.28
Interest coverage (times)	1.54	NM

A: Audited

NM: Not meaningful

**Status of non-cooperation with previous CRA:** Brickwork Ratings has conducted the review on the basis of best available information and has classified BAL as "Not cooperating" vide its press release dated February 25, 2020.

**Any other information:** Not Applicable

Rating History for last three years: Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE D
Non-fund-based - ST-BG/LC	-	-	-	95.30	CARE D

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	90.00	CARE D	-	1)CARE BB; Stable (08-Jan-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-(Under Credit watch with Negative Implications) (08-Oct-18)	1)CARE BBB-(Under Credit watch with Negative Implications) (29-Dec-17) 2)CARE BBB-; Stable (25-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	95.30	CARE D	-	1)CARE A4 (08-Jan-20) 2)CARE A4+ (10-Jun-19)	1)CARE A3 (Under Credit watch with Negative Implications) (08-Oct-18)	1)CARE A3 (Under Credit watch with Negative Implications) (29-Dec-17) 2)CARE A3 (25-Oct-17)

#### Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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