

## Balasore Alloys Limited

October 25, 2017

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	90 (enhanced from 80)	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	95.30 (enhanced from 63.30)	<b>CARE A3</b> <b>(A Three)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>185.30</b> <b>(Rs. One hundred eighty five crore and thirty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Balasore Alloys Limited (BAL) continues to draw comfort from the long experience of promoters & management team, presence of captive chrome ore mine ensuring immunity from volatility in major raw material prices, satisfactory capacity utilisation, strong presence of BAL in the export market with diversified customer base, improvement in its financial performance in FY17 (refers to the period April 01 to March 31) and Q1FY18 and comfortable capital structure. The ratings continue to be constrained by its on-going dispute with North Eastern Electricity Supply Company of Orissa Ltd (NESCO), Mining authorities of Jajpur, Orissa and District mineral Federation (DMF), susceptibility to electricity tariff hikes in the absence of captive power arrangement, working capital intensive nature of operations and complete dependence of the ferro alloys industry on steel sector.

Efficient management of its working capital requirements, resolution of the disputes with NESCO, DMF and Mining Authority of Jajpur, sustain the profitability & capital structure and any debt laden capex or acquisition would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters and management team:** 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. Mr. Pramod Mittal (Chairman) resigned from the company on August 22, 2017. Currently, the day to day affairs are managed by Mr. Anil Sureka (the present MD of BAL) having over three decades of corporate experience.

**Presence of captive chrome ore mine:** BAL has its own operational captive chrome ore mine at Sukinda valley (Jajpur), Odisha. The chrome ore requirements of the company are fully met from its own mine which gives a significant cost advantage to BAL.

**High capacity utilization:** The capacity utilization of BAL continued to remain satisfactory at over 90% during FY17 and Q1FY18.

**Strong presence in the export market with diversified customer base:** Export constitutes ~85% of total revenue of BAL in FY17 (~73% in FY16). The clientele of the company is spread across various countries, major being China followed by Korea in FY17. Furthermore, BAL also exports to Japan, Taiwan, Italy, USA, Latin America and other European countries.

**Improvement in financial performance FY17 and in Q1FY18:** A sharp increase in Ferro-Chrome (FeCr) prices significantly boosted performance of BAL in FY17. BAL's total operating income witnessed a y-o-y increase of ~21% to Rs.1012.51 crore in FY17 driven by healthy FeCr realisations along with increase in sales volumes fuelled by increased demand of FeCr in the global markets. Improved sales volume and sales realisations translated in improvement in absolute level of PBILDT by about ~179% and increase in PBILDT margin from 10% in FY16 to 17.74% in FY17. Further, improved PBILDT led to improvement in the interest coverage ratio from 2.66x in FY16 to 4.57x in FY17. Healthy margins translated into healthy cash generation for BAL in FY17 and gross cash accruals improved significantly from Rs.43.63 crore in FY16 to Rs.116.20 crore in FY17.

As per the unaudited results for Q1FY18, total operating income witnessed a Y-o-Y growth of ~84% mainly driven by increase in sales volume and realisation. PBILDT margin also improved from 11.77% in Q1FY17 to 18.02% in Q1FY18.

Further, improved PBILDT level and decline in finance charges led to improvement in interest coverage ratio from 2.90x in Q1FY17 to 5.36x in Q1FY18.

**Improvement in the capital structure and debt protection metrics in FY17 albeit high working capital utilisation:** The capital structure of BAL continues to remain comfortable marked by its debt-equity ratio and overall gearing ratio at 0.08x and 0.49x respectively as on March 31, 2017 (0.10x and 0.59x as on March 31, 2016, respectively). The improvement in the leverage ratios was driven by healthy accretion of profit to reserves and infusion of equity (amounting to Rs.21.50 crore) by the promoters to support the business operations during FY17. Furthermore, healthy cash accruals and decline in total debt resulted in improvement in Total debt/GCA from 5.19x in FY16 to 2.06x in FY17.

#### **Key Rating Weaknesses**

**Absence of captive source of power and coal:** Power cost is the second costliest component for BAL after raw materials (Chrome ore and coal) comprising ~33% of the total cost of sales in FY17 (~34% in FY16). BAL does not have any captive power plant and sources its power requirements mainly from North Eastern Electric Supply Company of Odisha Ltd. (NESCO). BAL mainly imports its LAM coal requirements from China. The price of Lam coke is highly volatile and any upward movement with inability of the company to pass on the same is expected to tamper the profitability.

**On-going disputes:** The Company has on-going disputes with NESCO, Mining authorities of Jajpur, Orissa and District mineral Federation (DMF), Odisha which are pending before various courts.

**Acquisition plans and underground mining project:** BAL is contemplating to acquire Rohit Ferro-Tech Ltd and has approached one of the lenders for the same. However, the same is at an initial stage. Currently, mining is based on open cast system which is expected to cover BAL's requirements for next five-six years. To support its future requirements, BAL is planning to undertake underground mining through BOT model at later stage. BAL has incurred about Rs.125.28 crore in the underground mining project which is funded out of its own sources for conducting the feasibility study (Rs.60 crore) and remaining Rs.65.28 crore as advance for purchase of machinery for the project. However, the modality of the project is yet to be finalised.

**Working capital intensive nature of operations:** The liquidity position of the company continued to remain under pressure with almost full utilisation (average utilisation remained at around 95%) of its working capital limits during the last 12-month period ended on Aug, 2017. The current ratio continued to remain below unity as on March 31, 2017 with negative operating cycle in FY17. In FY17, the average collection period of the company remained around 25 days along with average inventory holding period of about two and half months, while the average credit period remained well over four months.

**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 movement of the stainless steel industry. In FY17, FeCr prices witnessed a significant rise due to factors like, increased demand of stainless steel (SS) in China with decline in inventory of chrome ore in China and decline in chrome ore production in South Africa (largest chrome ore producer in the world). Volatile nature of FeCr prices has significant impact on the profitability of the companies in the sector.

**Analytical approach:** The rating of BAL is based on the standalone approach.

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

[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). FeCr is mainly used in Stainless steel (SS) production. The manufacturing facilities of BAL are located in Balasore (Odisha) with an installed capacity of 1,40,751 MTPA and in Sukinda (Odisha) with an installed capacity of 15,660 MTPA for ferro chrome as on March 31, 2017. BAL has two chrome ore beneficiation plant, a chrome ore briquetting plant and a metal recovery plant.

BAL is one of the leading domestic producers and exporters of FeCr in India with its own captive chromite ore mine located at Sukinda valley (Jajpur) in Odisha which takes care of its entire chromite ore requirement.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	839.59	1012.51
PBILDT	83.95	179.65
PAT	18.69	89.52
Overall gearing (times)	0.59	0.49
Interest coverage (times)	2.66	4.57

A: Audited

**Status of non-cooperation with previous CRA:** Brickwork ratings have mentioned in its website that the ratings are not reviewed.

**Any other information:** Not Applicable.

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

**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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**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 BBB-; Stable
Non-fund-based - ST-	-	-	-	95.30	CARE A3

BG/LC					
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**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BB+ (25-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Feb-17) 2)CARE BBB-; Stable (19-Jan-17)	1)CARE BB (21-Dec-15)	1)CARE BB+ (25-Nov-14)
3.	Non-fund-based - ST-BG/LC	ST	95.30	CARE A3	-	1)CARE A3 (14-Feb-17) 2)CARE A3 (19-Jan-17)	1)CARE A4 (21-Dec-15)	1)CARE A4+ (25-Nov-14)

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