Balasore Alloys Limited
January 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	90.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short term Bank Facilities	95.30	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Total	185.30 (Rs. One hundred eighty five crore and thirty lacs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Balasore Alloys Limited (BAL) take into account the cash losses reported in H1FY20 (refers to the period April 01 to September 30). The ratings continue to be constrained by deterioration in financial performance in FY19, 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, stable capacity utilization with moderation in H1FY20, strong presence in the export market with diversified customer base and comfortable capital structure & debt protection metrics.

Rating Sensitivities

Positive Factors

- Efficiently manage its liquidity and working capital requirements
- Resolution of the various pending disputes
- Increase in scale of operations and improvement in operating margin to 12%

Negative Factors

- Debt laden capex for the Underground Mining Project
- Capital structure beyond 0.3x and debt protection metrics beyond 5.5x
- Decline in scale of operations and operating margins below the levels achieved in FY19

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in financial performance in FY19 & H1FY20: BAL's total operating income remained stable at Rs.1258.90 crore in FY19 (Rs.1211.24 crore in FY18). However, PBILDT margin of the company declined from 12.49% in FY18 to 5.49% in FY19 due to increase in input costs. Interest coverage declined and stood at 1.53x in FY19 (3.22x in FY18).

In H1FY20, the company reported decline in total operating income by 26% y-o-y to Rs.480.72 crore in view of low capacity utilisation. The company reported loss in view of decline in sales realisation of ferro chrome and increase in cost of mining.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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. Coal & LAM Coke formed about 17% of the total cost of sales in FY19 after power cost (30%) and chrome ore (25%). Increasing trend of power tariffs and volatile nature of coal prices 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. However, the mines have started to provide low outputs from open cast mining which has compelled BAL to source about 30% of Chrome ore consumption in FY19 and 20% in H1FY20 from outside.
This apart, BAL has executed a Mine Development & Operation (MDO) agreement with Flynt Mining LLP (FML) for extraction of chrome ore via drift & fill mining method which has commenced from July 26, 2019. This is expected to help the company in meeting its requirement through captive mines and reduce procurement of chrome ore from outside at a higher price. This mining activity is being carried out in addition to the existing open cast mining operations being done by BAL itself. Till Oct.30, 2019, FML has extracted 10,176 MT of chrome ore.

***Delay in underground mining project*:** BAL is planning to undertake underground mining through BOT model at later stage and has incurred about Rs.254.82 crore in the underground mining project which is funded out of its own sources for conducting the feasibility study & development of underground mines. However, the modality of the project is yet to be finalized.

On-going disputes: The Company has on-going disputes with Mining authorities of Jajpur and State Trading Corporation of India 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 FY19, the company reported forex loss of Rs.28.49 crore as against forex gain of Rs.22.19 crore in FY18.
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.
Stable capacity utilization with moderation in H1FY20*:* Optimum capacity utilization has been a critical factor for BAL in achieving its sustained operational levels. The capacity utilization of BAL remained stable over 90% during FY19 (92% in FY18). The capacity utilization moderated to ~80% in H1FY20 in view of decline in export demand.
Strong presence in the export market with diversified customer base*:* Export constitutes ~79% of total revenue of BAL in FY19 (~80% in FY18). The clientele of the company is spread across various countries,

major being China, US, Korea, Japan & Taiwan in FY19. Diverse geographic presence of BAL minimizes geographical concentration risk to a large extent.

Comfortable capital structure and debt protection metrics: The capital structure of BAL continues to remain comfortable marked by overall gearing ratio at 0.22x as on March 31, 2019 (0.25x as on March 31, 2018). However Total debt/GCA deteriorated from 2.26x in FY18 to 5.43x in FY19 on account of losses incurred in FY19.

Liquidity: Stretched
Liquidity is characterized by gross cash accruals of Rs.37.03 crore vis-à-vis debt repayment obligations of Rs.9.22 crore in FY19 and moderate cash balance of Rs.3.80 crore as on Mar 31, 2019. However, the company has reported cash losses in H1FY20 as against debt repayment of Rs.3.08 crore. The same has been repaid out of advances received from customers. Its bank limits are highly utilized to the extent of 99%.
Analytical approach: Standalone
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). 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)	FY18 (A)	FY19 (A)
Total operating income	1211.24	1258.90
PBILDT	151.29	69.06
PAT	65.56	-ve
Overall gearing (times)	0.25	0.22
Interest coverage (times)	3.22	1.53

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
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 BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	95.30	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	90.00	CARE BB; Stable	1)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)	1)CARE BBB-; Stable (14-Feb-17) 2)CARE BBB-; Stable (19-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	95.30	CARE A4	1)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)	1)CARE A3 (14-Feb-17) 2)CARE A3 (19-Jan-17)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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