Balasore Alloys Limited

June 10, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	90.00	CARE BB+; Stable (Double B Plus; Stable)	Revised from CARE BBB-; Credit watch with negative implications (Triple B Minus; Credit watch with negative implications)
Short term Bank Facilities	95.30	CARE A4+ (A Four Plus)	Revised from CARE A3; Credit watch with negative implications (A Three; Credit watch with negative implications)
Total Facilities	185.30 (Rs. One hundred eighty five crore and thirty lakh 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 consideration the deterioration in financial performance in FY19 (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, various on-going disputes, working capital intensive nature of operations and complete dependence of the ferro alloys industry on cyclical steel sector.

The ratings continue to draw comfort from the long experience of promoters & management team, satisfactory capacity utilization, presence of captive chrome ore mine, strong presence in the export market with diversified customer base and comfortable capital structure & debt protection metrics.

Any debt-laden capex or acquisition, resolution of the various pending disputes, efficient management of its working capital would be the key rating sensitivities.

CARE has removed the ratings from ‘Credit Watch with Negative Implications’ as the legal proceedings in respect to the provisional attachment of BAL’s immovable properties/fixed assets worth Rs.244.89 crore is quashed and set aside by Hon’ble Appellate Tribunal vide order dated Mar 07, 2019.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in financial performance in FY19: BAL reported total operating income of Rs.1258.06 crore vis-à-vis Rs.1213.84 crore in FY18. The company reported decline in PBILDT margin from 12.68% in FY18 to 5.42% in FY19 due to higher input costs mainly due to increase in purchase of chrome ore from outside. Decline in PBILDT led to moderation in interest coverage from 3.28x in FY18 to 1.54x in FY19. BAL reported loss of Rs.29.16 crore in FY19 vis-à-vis PAT of Rs.65.55 crore in FY18. The company reported gross cash accrual of Rs.38.79 crore in FY19 (vis-à-vis Rs.106.08 in FY18) as against debt repayment obligation of Rs.3.73 crore.

Absence of captive source of power and coal: Power cost forms about 29% of total cost of sales in FY19. BAL does not have any captive power plant and sources its power requirements from outside. Coal & LAM Coke formed about 15% of the total cost of sales in FY18. The increasing trend of power tariffs and volatile nature of coal prices leaves the profitability of the company vulnerable to such changes.

On-going disputes: The Company has on-going disputes with Mining authorities of Jajpur and others which are pending before various courts & authorities.

Presence of captive chrome ore mine albeit sourcing of chrome ore from open market: Chrome ore is a major raw material for ferro-chrome 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, recently the mines have started to provide low outputs from open cast mining which has compelled BAL to source about 30% of Chrome ore consumption from outside in FY19.

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

Working capital intensive nature of operations: The liquidity position of the company continued to remain under pressure with almost full utilization of its working capital limits during the last 12-month ended on April, 2019.

Complete dependence of the ferro alloys 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 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. Currently, the day to day affairs are managed by Mr. Anil Sureka (the present MD of BAL) having over three decades of corporate experience.

Satisfactory capacity utilization: Optimum capacity utilization has been a critical factor for BAL in achieving its sustained operational levels. However, the capacity utilization of BAL continued to remain satisfactory at 92% during FY19 (92% in FY18).

Strong presence in the export market with diversified customer base: Export constitutes ~81% of total revenue of BAL in FY18 (~85% in FY17). The clientele of the company is spread across various countries, major being Taiwan, China & Korea in FY18. The company is planning to increase its export presence in USA and Europe. 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 its debt-equity ratio and overall gearing ratio at 0.01x and 0.18x respectively as on March 31, 2019 (0.02x and 0.25x as on March 31, 2018 respectively). However Total debt/GCA moderated from 2.18x in as on March 31, 2018 to 5.02x as on March 31, 2019.

Liquidity: The average utilization of the working capital facilities was 99% during the last 12 months ended April 19.

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). FeCr is mainly used in Stainless steel (SS) production. The manufacturing facilities of BAL are located in Balasore (Odisha) with an installed capacity of 1,45,000 tpa and in Sukinda (Odisha) with an installed capacity of 15,660 tpa for ferro chrome as on March 31, 2018. 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 ~12% market share in Indian ferro-chrome industry) with its own captive chromite ore mine located at Sukinda valley (Jajpur) in Odisha which is about 176 kms & 28 kms away from its manufacturing facilities at Balasore & Sukinda respectively.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1213.84	1258.06
PBILDT	153.89	68.19
PAT	65.56	(29.16)
Overall gearing (times)	0.25	0.22
Interest coverage (times)	3.28	1.54

A: Audited

Status of non-cooperation with previous CRA: Brickwork Ratings has placed BAL under Issuer not cooperating based on best available information on June 21, 2018.

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 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 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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