September 26, 2022

Berry Alloys Limited: Ratings reaffirmed; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund based – Cash credit	70.0	70.0	[ICRA]A (Positive), reaffirmed; outlook revised to 'Positive' from 'Stable'
Short-term, non-fund based – Letter of credit	95.0	95.0	[ICRA] A2+; reaffirmed
Total	**165.0**	**165.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook to Positive reflects ICRA's expectations that Berry Alloys Limited's (BAL) credit risk profile will continue to improve in the near-to-medium term with an increase in volumes, supported by brownfield capacity expansion being undertaken by the company and favourable demand outlook for the domestic steel industry. Recent enhancement in working capital facilities would further support BAL's liquidity position during the ramp-up phase. The ratings continue to drive comfort from BAL's established market position in the steel industry, extensive experience of its promoters in the ferro-alloys industry as well as its established customer base. BAL's financial profile also remains comfortable aided by healthy operating profit margins (OPM) and its low reliance on debt.

BAL's operating performance remained strong in FY2022 led by healthy demand from the steel sector, facilitating high-capacity utilisation levels. BAL also added two additional furnaces in H2 FY2022 (in October and November 2021), which helped augment its capacity to meet the increased demand. Coupled with elevated realisations, this led to a 110% YoY growth in revenues to Rs. 1,083.9 crore in FY2022, with healthy OPM of 23.3%. The company reported healthy performance in 5M FY2023 (albeit moderated on YoY basis) with revenues of Rs. 586 crore and OPM of 19.2%, supported by favourable realisations in Q1 FY2023. While the recent fall in silico manganese realisations would keep BAL's profitability in FY2023 lower than FY2022 levels, favourable demand from domestic steel industry would keep BAL's sales volumes healthy and will adequately support its scale of operations. BAL is also undertaking brownfield capacity expansion by adding two additional furnaces, which are expected to become operational by November 2022. ICRA also derives comfort from the ability of BAL to effectively manage the price fluctuation, as evident from its stable OPM during FY2019 to FY2021.

BAL also has plans for greenfield capacity expansion over the medium term. Any large debt-funded capital outlay towards the same would be a key rating monitorable. The ratings also factor in susceptibility of BAL's profitability to the cyclicality in the steel industry and exposure to raw material prices, finished goods and foreign exchange (forex) fluctuations, given its high reliance on imports.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – BAL is promoted by Mr. Vijay Gupta, who has more than two decades of experience in the steel industry and looks after the overall manufacturing operations in Bobbili, Vishakhapatnam.

Established relationships with customers – BAL's products largely cater to the steel industry. The company also exports to Bangladesh, Nigeria, South Africa, Sri Lanka, and West Asia countries. In the domestic region, the company has long established relationships with public sector units (PSU) like Rashtriya Ispat Nigam Limited (RINL), Steel Authority of India Limited (SAIL), Tata Steel Limited, JSW Steels Limited, among others, and other large private sector players.

Comfortable financial risk profile – BAL has a comfortable financial profile, marked by low gearing and healthy debt coverage indicators given the continued positive cash flows from operations in the recent years. The company's revenues surged to 110% at Rs. 1,083.9 crore in FY2022 on a YoY basis supported by the healthy demand scenario in the steel industry, leading to improved demand of ferro alloys in the industry. Led by elevated realisations, OPM also improved sharply to 23.3% in FY2022. With improved cash flows, the company paid off its interest-bearing unsecured loans entirely in FY2022. The company's total debt as on March 31, 2022, comprised mainly of working capital borrowings. The debt coverage metrics also remain healthy with an interest coverage of 28.4 times in FY2022 owing to healthy profit generation. ICRA notes that while the recent fall in silico manganese realisations would keep BAL's profitability in FY2023 lower than FY2022 levels, the financial profile is expected to remain comfortable led by BAL's limited dependence on debt.

Credit challenges

Susceptibility of profitability to volatility in raw material prices, realisation, and forex fluctuations – Raw materials account for one of the major cost components for ferro-alloy producers like BAL and are important determinants of profitability. The main raw materials include manganese ore (with 30-44% Fe content) and coke, which account for bulk of the raw material costs and have exhibited sharp volatility in the past. BAL's profit margins remain vulnerable to fluctuations in silico manganese prices as well as that of raw materials, given the lack of backward integration. Ferro alloys manufacturing operations are highly energy intensive, accounting for 40% of the total cost. The company does not have a captive power plant given the attractive tariffs. ICRA, however, notes that in any case of fluctuation in the power tariffs, the cost of production would get impacted. Nonetheless, BAL's ability to effectively manage this price fluctuation, as evident from its stable OPM, provides comfort. The company's profitability also remains exposed to forex fluctuation risks, given BAL's high reliance on imports.

Cyclical nature of ferro-alloy industry with complete dependence on steel sector – Metal ores and ferro alloys, being intermediaries to the steel industry, exhibit considerable cyclicality and are highly sensitive to global demand patterns. Therefore, BAL will remain exposed to the cyclical demand in the steel industry.

Capex towards capacity expansion – While the company is undertaking a brownfield capacity expansion in the near term, it also has a greenfield capacity expansion plans in the medium term. The overall quantum of greenfield capex and its funding mix would be a key rating monitorable.

Liquidity position: Adequate

BAL's liquidity position is adequate, supported by heathy cash flow from operations. The liquidity profile is further supported by unutilised fund-based limits of Rs. 11.1 crore as on July 31, 2022. The utilisation of fund-based limits has remained moderate at 63% over the last twelve months ending July 31, 2022. Against this, the company has nominal debt repayments towards its working capital term loans worth Rs. 1.5 crore in FY2023. The company has an ongoing capex towards capacity additions worth Rs. 70 crore, funded entirely through internal accruals. The company has also recently received sanction of additional fund-based and non-fund-based limits of Rs. 155 crore, which shall further support its liquidity position during the capacity ramp-up phase. In addition, the company has been utilising additional LC limits against fixed deposits (Rs. 86 crore as on July 31, 2022).

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if BAL is able to register healthy increase its revenues and improve its liquidity position while maintaining healthy profit margins and credit metrics, on a sustained basis.

Negative factors – The outlook maybe revised to Stable if a significant decline in BAL's profitability, and/ or if any large debt-funded capex/investments adversely impact its credit metrics and liquidity position. Specific credit metrics for ratings downgrade include a deterioration in the total debt vis-à-vis the operating profit to above 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metals
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Berry Alloys Limited, incorporated in 2006, by Kolkata-based Mr. Vijay Gupta, manufactures ferro-alloys, primarily silico manganese. The manufacturing facilities are in Bobbili (Vizianagaram district), Andhra Pradesh, in proximity to the Vizag port. The company has an installed manufacturing capacity of 1,26,000 MTPA of silico manganese with 63 MVA submerged electric arc furnaces. BAL's manufactured products cater to the steel sector. The company supplies its products in the export markets and to reputed companies like SAIL, RINL, Essar Steels Ltd, among others.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	517.0	1,083.9
PAT (Rs. crore)	31.6	186.3
OPBDIT/OI (%)	12.3%	23.3%
PAT/OI (%)	6.1%	17.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.8
Total Debt/OPBDIT (times)	0.8	0.2
Interest Coverage (times)	5.1	28.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					26-Sep-2022	24-Mar-2022	NA	NA
1	Cash credit	Long term	70.0	-	[ICRA] A (Positive)	[ICRA] A (Stable)		
2	Letter of credit	Short term	95.0	-	[ICRA] A2+	[ICRA] A2+		

Complexity level of the rated instruments

Instrument	Complexity Indicator

Long-term, fund based – Cash credit	Simple
Short-term, non-fund based – Letter of credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term, fund based – Cash credit	-	-	-	70.0	[ICRA] A (Stable)
NA	Short-term, non-fund based – Letter of credit	-	-	-	95.0	[ICRA] A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Sagarikaa Mukherjee
+91 22 6169 3327
agarikaa.mukherjee@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches