ICRA

March 31, 2023

Berry Alloys Limited: Ratings reaffirmed and rated amount enhanced; Outlook revised to Stable from Positive

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	120.0	[ICRA]A; Reaffirmed/Assigned; outlook revised to Stable from Positive
Short-term - non-fund based – Letter of Credit^	95.0	200.0	[ICRA]A2+; Reaffirmed/ Assigned
Short term – Forward contract	-	3.4	[ICRA]A2+; Assigned
Total	**165.0**	**323.4**	

**Instrument details are provided in Annexure-1; * Can be used as WCDL; ^Interchangeable to Bank Guarantee*

Rationale

The revision in the outlook to Stable from Positive reflects a significant deterioration in Berry Alloys Limited's (BAL) profitability post Q1 FY2023 owing to elevated raw material prices, an increase in power tariff and a moderation in realisations. The company's operating margin weakened to 7.7% in 11M FY2023 vis-à-vis 19.2% in 4M FY2023 and 23.3% in FY2022. While the realisations have improved to some extent from January 2023 with the easing of lockdown restrictions in China, the raw material prices have also increased, restricting margin expansion. The profitability of the ferro alloy producers, including BAL, remained robust in FY2022, supported by a sharp rise in realisations. While the profitability in FY2023 was expected to moderate following a supernormal level recorded in FY2022, the current profitability is significantly lower than ICRA's previous estimates. However, the company's profits and cash accruals are likely to remain healthy, given a significant increase in capacity with the commissioning of the ~20-MVA new capacity in Q4 FY2023 and BAL's efficient operations, reflected by its high capacity utilisation. The ratings continue to derive 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 its conservative capital structure and strong debt coverage metrics.

BAL has incurred significant capex in the recent years for capacity expansion and process improvement, which have been funded from internal accruals. However, any large debt-funded capex would be a key rating monitorable. The ratings also factor in the susceptibility of BAL's profitability to the cyclicality in the steel industry and exposure to raw material prices, finished goods realisations and foreign exchange (forex) rate fluctuations. However, presence of both exports and imports provides natural hedging of forex risks, to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that BAL is likely to witness a sustained revenue growth, aided by regular capacity expansion and optimum utilisation of production capacities. Its credit profile is likely to remain comfortable with healthy cash accruals and limited reliance on debt.

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.

Significant scale expansion, supported by capacity addition and efficient utilisation of the same – The company has expanded its capacity significantly by setting up two ferro alloy furnaces in FY2022, and adding two other furnaces in the current fiscal, increasing the total capacity to ~83 MVA from ~45 MVA in FY2021. As a result, the company is likely to witness a healthy revenue growth. The company's efficient operation, reflected by optimum utilisation of the production capacities, is also likely to support its cost structure and profitability.

Conservative capital structure and comfortable debt-coverage metrics – BAL has a comfortable financial profile, marked by low gearing and strong debt coverage indicators, aided by low reliance on debt and healthy profits at an absolute level. The company's debt coverage metrics are likely to remain strong despite a moderation in profitability in the current fiscal.

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 a relatively lower power tariff. However, the same has increased by around 20% in the current fiscal, leading to an increase in the production cost. The company's profitability has deteriorated significantly post Q1 FY2023 because of elevated raw material prices, an increase in power tariff and a moderation in realisations. The company's operating margin weakened to 7.7% in 11M FY2023 vis-à-vis 19.2% in 4M FY2023 and 23.3% in FY2022. While the realisations have improved to some extent from January 2023 with easing of Covid-induced restrictions in China, the raw material prices have also increased, restricting margin expansion. The company's profitability also remains exposed to forex fluctuation risks, given BAL's high reliance on imports and exports. However, presence of both exports and imports provide natural hedging of forex risks, to some extent.

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.

Significant capex for capacity expansion – While the company has undertaken significant brownfield capacity expansion since FY2022, it may also embark upon a greenfield capacity expansion 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. Its cash flow from operations is likely to remain healthy in the current fiscal and going forward, despite a deterioration in the profitability. The company has nominal debt repayments worth Rs. 1.5 crore annually till FY2025, towards its working capital term loans. The company has incurred capex of Rs. 80-90 crore for capacity addition and process improvement, however, the same has been entirely funded from internal accruals. The company's working capital requirement has increased with a rise in the raw material prices and scaling up of operations. However, the overall fund-based working capital limits have been enhanced commensurately. The undrawn working capital stood at Rs. 11 crore as on February 28, 2023. The company has also significant cash balance (Rs. 103 crore as on February 28, 2023). It utilises the same to avail letter of credit against 100% margin for reducing the financial charges. However, the free cash balance after providing margins against letter of credit remained healthy (estimated at around Rs. 84 crore as on February 28, 2023).

Rating sensitivities

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

Negative factors – The ratings may be downgraded if a sustained 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 with submerged electrical arc furnace capacity of ~83 MVA, out of which ~20 MVA has been installed in Q4 FY2023. The ferro alloys manufactured by BAL find its usage in the steel sector. The company supplies its products in the export market as well as to the reputed steel makers in the domestic market.

Key financial indicators (audited)

	FY2021	FY2022
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)	0.7	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 as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					31-Mar-2023	26-Sep-2022	24-Mar-2022	-	-
1	**Cash credit***	Long term	120.0	-	**[ICRA]A (Stable)**	**[ICRA]A (Positive)**	**[ICRA] A (Stable)**	-	-
2	**Letter of Credit***	Short term	200.0	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA] A2+**	-	-
3	**Forward Contract**	Short term	3.4		**[ICRA]A2+**	-	-	-	-

** Can be used as WCDL; ^Interchangeable to Bank Guarantee*

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
Short term – Forward Contract	Very Simple

** Can be used as WCDL; ^Interchangeable to Bank Guarantee*

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: Click Here

Annexure I: 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***	-	-	-	120.0	[ICRA]A (Stable)
NA	**Short-term - non-fund based – Letter of Credit^**	-	-	-	200.0	[ICRA]A2+
NA	**Short term – Forward Contract**	-	-	-	3.4	[ICRA]A2+

Source*: Company; * Can be used as WCDL; ^Interchangeable to Bank Guarantee*

[*Please click here to view details of lender-wise facilities rated by ICRA]*](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@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