

March 25, 2024

Berry Alloys Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term Loan	-	75.0	[ICRA]A (Stable); Assigned
Long term – Fund based – Cash Credit**	120.0	170.0	[ICRA]A (Stable); Reaffirmed/Assigned
Short term – Non-fund based – Letter of Credit^	200.0	280.0	[ICRA]A2+; Reaffirmed/ Assigned
Short term – Forward Contract	3.4	3.4	[ICRA]A2+; Reaffirmed
Total	323.4	528.4	

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

Rationale

The reaffirmation of ratings continues to derive comfort from Berry Alloys Limited's (BAL) established market position in the ferro alloy industry along with its established customer base, an extensive experience and strong financial flexibility of the promoter Group. The ratings also factor in BAL's efficient operations, reflected by its high capacity utilisation, and a significant increase in its scale of operations, supported by capacity addition in the recent years. ICRA notes the strategic location of the company's plant in proximity to the Vizag port, which keeps the landed costs of imported raw materials low and aids in export of its products, rendering operational and cost benefits. BAL's financial profile is characterised by its conservative capital structure and comfortable debt coverage metrics, notwithstanding a significant moderation in its profit margins following a supernormal level of profitability recorded in FY2022 and an increasing trend in its debt level. The company posted a robust turnover growth of 30% in FY2023, aided by capacity addition, however, its operating margin declined to 8.3% from 23.3% in FY2022 on the back of a sharp rise in raw material prices and power cost. In the current fiscal, the company is likely to achieve a double-digit turnover growth because of further capacity addition in Q4 FY2023. However, a decline in its realisation is likely to keep the operating margin under pressure, notwithstanding a softening of input prices. In November 2023, the Government of Andhra Pradesh announced a significant reduction in the electricity duty and demand charges for ferro alloy producers for FY2024, which was raised at the beginning of the year. While the revised charges became effective from November 2023, the refund for higher charges paid from April 2023 to October 2023 is yet to be received. Nevertheless, reduced power cost would limit contraction of BAL's operating margin in the current fiscal to some extent.

The ratings are constrained by the susceptibility of BAL's profitability to the cyclical nature in the ferro alloy industry, given its close linkage with the steel industry, and exposure to fluctuations in raw material prices, power cost and finished goods realisations. The company also remains vulnerable to foreign exchange (forex) rates volatility, 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 expectation that BAL is likely to sustain its operational efficiency and its cash flow from operations would remain healthy post FY2024, despite a moderation in the operating margin. The company is unlikely to undertake any highly leveraged capex in the near-to-medium term, hence, its credit metrics are expected to remain comfortable, despite an increase in borrowings in the recent years with scaling up of operations.

Key rating drivers and their description

Credit strengths

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

The promoter Group's strong financial flexibility, marked by a favourable mix of debt and internal funding for previous capacity expansions and incremental working capital funding of BAL and other promoter-controlled entities, also support the credit profile.

Repeat business from established customers and significant expansion of scale leading to a robust revenue growth – BAL's products largely cater to the steel industry. In the domestic market, the company has long established relationships with public sector units (PSU) like Rashtriya Ispat Nigam Limited, Steel Authority of India Limited, NMDC Steel Limited along with large private sector players like Tata Steel Limited, JSW Steels Limited, NMDC Steel Limited among others. The company also exports to Europe, Middle East, Korea, Japan, Thailand etc., which accounted for 31% of its total sales in 10M FY2024. Repeat business from the customers and a significant increase in capacity in the recent years have translated into a robust revenue growth. The company's current capacity stands at ~81 MVA vis-à-vis ~45 MVA in FY2021. Capacity expansion along with buoyant realisations led to a revenue growth of 110% in FY2022. In FY2023, despite a moderation in realisation, the company posted a revenue growth of 30%, driven by a significant increase in sales volume. BAL is likely to clock a double-digit revenue growth in the current fiscal, with further increase in the scale of operations due to commissioning of two new furnaces in Q4 FY2023. In 10M FY2024, the company's operating income stood at Rs. 1,384.0 crore vis-à-vis Rs. 1,409.0 crore in the full year of FY2023.

Strategic location of the plant and efficient operations, reflected by high capacity utilisation, positively impact cost structure – BAL's plant is located in proximity to the Vizag port, leading to low cost of imported raw materials and competitive exports. The company's efficient operation, reflected by optimum utilisation of the production capacities, also supports its cost structure and profitability.

Conservative capital structure and comfortable debt coverage metrics, notwithstanding increasing debt – BAL has a comfortable capital structure due to limited borrowings vis-à-vis its tangible net worth. Its gearing stood in the range of 0.3-0.4 times in the last three fiscals. Its debt level increased in FY2023 and is likely to move up further in the current fiscal due to a rise in the working capital requirements with scaling up of operations and a fresh term loan being availed. However, the capital structure is likely to remain comfortable. Healthy profitability strengthened BAL's debt coverage metrics in FY2022. The debt coverage metrics weakened in FY2023 due to a decline in its profits and a rise in working capital borrowings. However, the same remained comfortable, as reflected by an interest coverage of 7.7 times (28.2 times in FY2022), total debt/OPBDITA of 1.2 times (0.4 times in FY2022) and net cash accrual/total debt of 60% (213% in FY2022). The debt coverage metrics are likely to moderate further in the current fiscal. While ICRA does not foresee a sustained deterioration in the company's credit metrics in the medium term, the resilience of BAL's financial performance amid a sluggish industry scenario would remain a key monitorable.

Credit challenges

Susceptibility of profitability to volatility in raw material prices, realisation, and power cost – Raw materials are among the major cost components for ferro-alloy producers like BAL and are important determinants of profitability. The main raw materials include manganese ore, coal 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 ferro alloy realisations and raw material prices, given the lack of backward integration. A moderation in realisations is likely to have a bearing on the company's profitability in the current fiscal. Nevertheless, the company has commissioned an argon-oxygen decarburisation (AOD) facility in the current fiscal to commence production of low-carbon ferro alloys, which fetch considerably higher realisations and contribution than high-carbon ferro alloys. This is likely to support the company's profitability.

Ferro alloys manufacturing operations are highly energy intensive. The company does not have a captive power plant. Its power tariff increased by ~Rs. 1.0/kWh (~20%) in FY2023 and rose further by ~Rs. 1.6/kWh (including duty and demand charges) from the beginning of FY2024. However, the power tariff has come down to nearly FY2023 level with significant reduction in electricity duty and demand charges for the ferro alloy industry for FY2024, announced by the Government of Andhra Pradesh in November 2023. The reduction in power tariff by the Government would limit the contraction in the company's operating margin in the current fiscal on the face of moderation in realisations. However, removal of such

Government support may adversely impact BAL's profitability in FY2025 if the realisations continue to remain subdued. The company's plan to tie up renewable power at a cheaper rate than grid power for a long tenure, if materialises, would positively impact its cost structure.

Cyclical nature of ferro-alloy industry with complete dependence on steel sector; currently passing through a sluggish phase

– Ferro alloys, which are intermediaries to the steel industry, exhibit considerable cyclicity and are highly sensitive to global demand patterns. Therefore, BAL will remain exposed to the cyclical demand in the steel industry. Exports account for 30-40% of the ferro alloys produced in India. Ferro alloys exports from India declined by ~9% in 9M FY2024 on a YoY basis due to a slowdown in the international steel market, denting the realisations and profitability of all the players in the ferro alloy industry, including BAL.

Exposed to forex risks, however, presence of both export and import provides a natural hedge – The company's profitability remains exposed to forex fluctuation risks, given BAL's high reliance on imports and exports. However, the presence of both exports and imports provides a natural hedging of forex risks, to some extent.

Liquidity position: Adequate

BAL's liquidity position is adequate. Its cash flow from operations remained healthy at ~Rs. 53 crore in FY2023, however, the same is likely to be adversely impacted by a decline in the operating profit and an increase in the working capital requirement in the current fiscal on the back of a rise in the scale of operation. Nevertheless, the company's capex would be significantly lower (within Rs. 25 crore) in FY2024 compared to FY2023 (~Rs. 77 crore). BAL's debt repayment obligation would remain moderate (~Rs. 7 crore in FY2024 and ~Rs. 15 crore in FY2025). The company has received sanction of a term loan of Rs. 75 crore in the current fiscal, as a reimbursement of the capex incurred in FY2023. Half of the term loan has already been disbursed, supporting BAL's liquidity. Moreover, some cushion in working capital utilisation, as reflected by undrawn fund-based limits of ~Rs. 17 crore on an average from September 2023 to January 2024, and an enhancement in the limits in the recent past would support the liquidity position. The company has sizeable fixed deposits (~Rs. 55 crore as of February 2024). It utilises the same to avail letter of credit against 100% margin (in addition to the sanctioned limit availed against 10% margin) for reducing the financial charges.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if BAL's profitability and liquidity improve significantly, while maintaining a conservative capital structure and comfortable debt coverage 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
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Berry Alloys Limited, incorporated in 2006, by Kolkata-based Mr. Vijay Gupta, manufactures manganese-based ferro-alloys (silico manganese and ferro manganese). The manufacturing facility is in Bobbili (Vizianagaram district), Andhra Pradesh, in proximity to the Vizag port. The company has an installed manufacturing capacity of ~81 MVA with nine submerged electrical arc furnaces. The ferro alloys manufactured by BAL find usage in the steel sector. The company supplies its products in the

export market as well as in the domestic market to the reputed steel makers. It mainly manufactures high-carbon ferro alloys. However, the company has started production of low-carbon ferro alloys in the current fiscal.

Key financial indicators (audited)

	FY2022	FY2023	10M FY2024*
Operating Income (Rs. crore)	1083.9	1409.0	1384.0
PAT (Rs. crore)	186.9	74.1	56.9
OPBDIT/OI (%)	23.3%	8.3%	7.0%
PAT/OI (%)	17.2%	5.3%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.3	-
Total Debt/OPBDIT (times)	0.4	1.2	-
Interest Coverage (times)	28.2	7.7	4.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional; power cost rebates of ~Rs. 47 crore for the period from April 2023 to October 2023, for which refunds are yet to be received, have been reduced from the power cost in 10M FY2024*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & Rating in FY2024	Date & rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
				Mar 25, 2024	Mar 31, 2023	Sep 26, 2022	Mar 24, 2022	-	
1 Term Loan	Long term	75.0	34.38	[ICRA]A (Stable)	-	-	-	-	
2 Cash Credit*	Long term	170.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	-	
3 Letter of Credit [^]	Short term	280.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA] A2+	-	
4 Forward Contract	Short term	3.4	-	[ICRA]A2+	[ICRA]A2+	-	-	-	

*Interchangeable to WCDL; [^]Interchangeable to Bank Guarantee

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term Loan	Simple
Long term – Fund based – Cash Credit*	Simple
Short term – Non-fund based – Letter of Credit [^]	Very Simple
Short term – Forward Contract	Very Simple

*Interchangeable to 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	Term Loan	Jun 28, 2023	-	Dec 31, 2029	75.0	[ICRA]A (Stable)
NA	Cash Credit*	-	-	-	170.0	[ICRA]A (Stable)
NA	Letter of Credit^	-	-	-	280.0	[ICRA]A2+
NA	Forward Contract	-	-	-	3.4	[ICRA]A2+

Source: Company; *Interchangeable to WCDL; ^Interchangeable to Bank Guarantee

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

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Branches



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