March 24, 2022

Berry Alloys Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-Term/ Fund Based – Working capital facilities	70.00	[ICRA]A (Stable); assigned
Short-Term/Non-fund Based – Working capital facilities	95.0	[ICRA] A2+; assigned
Total	**165.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned derive comfort from Berry Alloys Limited's (BAL) established market position in the steel industry and the extensive experience of its promoters in the ferro-alloys industry. The ratings favourably factor in the company's healthy operating performance during FY2019-FY2022, characterised by high-capacity utilisation levels, despite periodic capacity additions. ICRA also notes the improvement in ferro alloys demand, led by healthy pick-up in demand in the steel industry since H2 FY2021. The company's revenues are expected to witness a sharp YoY growth of 106% in FY2022, aided by elevated realisations owing to strong demand and BAL's venture into the trading business. BAL also has an established customer base because of its long presence in the industry. The company has a comfortable financial risk profile, characterised by its healthy capital structure and comfortable coverage indicators. BAL had prepaid its debt obligations and reduced its dependence on unsecured loans in FY2021 and YTD FY2022, led by strong cash flows.

BAL proposes to incur a brownfield capacity expansion by setting up two additional furnaces in FY2023 at an estimated cost of Rs. 60 crore. The same is expected to be funded primarily through internal accruals. The timely commencement and stabilisation of the new capacity would be important, though ICRA derives comfort from the management's track record in this regard. Further, BAL has plans for greenfield/brownfield capacity expansions 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 the exposure to raw material prices, finished goods and foreign exchange (forex) fluctuations, given the high reliance on imports.

The Stable outlook on the long-term rating reflects ICRA's opinion that BAL will continue to benefit from the favourable operating environment of the ferro-alloys industry, which would help the company generate healthy cash flows from operations over the near to medium term.

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.

Healthy operational performance led by effective capacity utilisation – As on January 31, 2022, the company had a total manufacturing capacity of 1,26,000 MTPA of silico manganese with 63 MVA submerged electric arc furnaces. The company has been periodically expanding its installed capacity over the last four years. Despite regular capacity additions, the company has been able to maintain healthy capacity utilisation levels of more than 80%.

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 capital structure given the continued positive cash flows from operations in the recent years. Consequently, the company was able to fund its working capital requirements and capex through a favourable mix of debt and internal accruals, which lead to comfortable gearing of 0.1 times as on January 31, 2022. The company's total debt as on March 31, 2021, comprised unsecured loans of Rs. 41.0 crore from the promoter Group at an interest rate of 9% and working capital borrowings of Rs. 8.1 crore. The unsecured loans have been largely repaid in FY2022, with an outstanding balance of Rs. 2.5 crore as on January 31, 2022. The debt coverage metrics also remain healthy with interest coverage of 5.1 times in FY2021 and 32.8 times in 10M FY2022, owing to the super-normal profits during the period.

Credit challenges

Susceptibility of profitability to volatility in raw material prices, product prices 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 constitutes bulk of the raw material cost. Besides, 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. In any case of fluctuations in the power tariffs, the cost of production shall get impacted. The prices of both manganese ore (key raw material for ferro-alloy manufacture) and coke have exhibited sharp volatility in the past. Hence, BAL's margins are exposed to the fluctuations in manganese ore and coke prices. The company's profitability also remains exposed to forex fluctuation risks, given BAL's high reliance on imports. Nonetheless, BAL's ability to effectively manage this price fluctuations, as evident from its stable OPM, provides comfort.

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, despite healthy capacity utilisation and proximity to raw material sources continuing to drive profitability.

Capex towards capacity expansion – BAL shall be undertaking a brownfield expansion towards setting up of two additional furnaces in H1 FY2023 at an estimated outlay of ~Rs. 60 crore. The timely completion and stabilisation of the same would be critical. The company also has plans of undertaking greenfield/brownfield capacity expansions over the medium term. The plan is, however, in a nascent stage. The overall quantum of capex and its funding mix, thereon, would be a key rating monitorable.

Liquidity position: Adequate

BAL's liquidity position is adequate, supported by heathy cash flows from operations. The liquidity profile is further supported by the unutilised fund-based limits of Rs. 16.9 crore in January 2022. The utilisation of fund-based limits has remained moderately high in the recent past at an average of 51%, owing to the cautious inventory procurement by the company amid rising prices. Against this, the annual fixed repayment obligations towards Guaranteed Emergency Credit Line (GECL) loans are between Rs. 1.0 crore and Rs. 1.3 crore, while unsecured loans do not have any defined repayment schedule. BAL shall be incurring a capex of Rs. 60 crore in FY2023 towards a brownfield capacity expansion, to be funded by internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is any significant improvement in revenues and profitability, along with improvement in BAL's liquidity position while maintaining healthy credit metrics, on a sustained basis.

Negative factors – The ratings could be downgraded if a significant decline in BAL's profitability due to volatility in raw material prices, and/ or if any large debt-funded capex/investments adversely impact its credit metrics and liquidity position. Specific credit metrics for a downgrade includes deterioration in the TD/OPBITDA 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, is involved in the manufacture of 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 MT per annum 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

	FY2020 (Audited)	FY2021 (Audited)	10M FY2022 (Provisional)
Operating Income (Rs. crore)	479.1	517.0	835.3
PAT (Rs. crore)	34.6	31.6	207.5
OPBDIT/OI (%)	12.4%	12.3%	25.6%
PAT/OI (%)	7.2%	6.1%	24.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.1	0.7
Total Debt/OPBDIT (times)	1.5	0.8	0.2
Interest Coverage (times)	4.5	5.1	32.8

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					24-Mar-2022	**NA**	**NA**	**NA**
1	Working capital facilities	Long-Term	70.0	-	[ICRA] A (Stable)	NA		
2	Working capital facilities	Short-Term	95.0	-	[ICRA] A2+	NA		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Fund Based – Working capital facilities	Simple
Short Term/Non-Fund Based – Working capital facilities	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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-Term/Fund Based - Working capital facilities	-	-	-	70.0	[ICRA] A (Stable)
NA	Short-Term/Non-Fund Based - Working capital facilities	-	-	-	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

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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

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