February 14, 2017

FACOR Alloys Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Facilities (Working Capital)	28.16 (decreased from Rs. 28.90 crore)	Reaffirmed at [ICRA]D
Non-fund based bank facilities (Working Capital)	33.53 (decreased from Rs. 34.00 crore)	Reaffirmed at [ICRA]D
Unallocated	1.21	Assigned [ICRA]D
Total	**62.90**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating for the Rs. 28.16 crore[1] fund-based and assigned for Rs. 1.21 crore unallocated bank facilities of FACOR Alloys Limited (FAL) at [ICRA]D (pronounced as ICRA D). Further, ICRA has also reaffirmed the short term rating for the Rs. 33.53 crore non fund based bank facilities of the company at [ICRA]D (pronounced as ICRA D).

Rationale

The ratings continue to reflect sustained irregularities in debt-servicing by the company as well as continued failure by the company to honour its financial obligation arising from invocation of a SBLC (stand-by letter of credit) owing to liquidity issues. The SBLC had been issued by the lender for granting loan to its overseas subsidiary- M/s Facor Minerals (Netherlands) B.V. The company had no cash accruals during FY2015, FY2016 and H1'FY2017 as its operations remained suspended for ~30 months due to labour unrest, shortage of chrome ore supply at competitive rates as well as pressure on Ferro chrome realisations which made operations unviable. Although the labour issues got resolved in December 2014, increase in tariff on power supply from Andhra Pradesh State Electricity Board kept the company's operations uneconomical. Suspension of operations together with presence of fixed expenses resulted in sizeable losses, partial erosion of net-worth of the company as well as depletion of its cash reserves. With reduction in power tariff and increase in Ferro-chrome realisations, company's operations have revived from October 2016 onwards. Nevertheless, company's ability to streamline production, achieve healthy capacity utilisation and achieve operational and cost efficiencies will be critical determinants of its profitability metrics going forward and hence would be the key rating sensitivity. In this context, buoyancy in Ferro-chrome prices as well as company's ability to procure chrome ore at competitive rates will also be key determinants of its profitability going forward. Further, restructuring of the SBLC liability at favourable terms, which will help the company align its repayment obligations with expected cash flows will also be a key rating sensitivity.

Key rating drivers

Credit Strengths

- Experienced promoters with long track record in the Ferro alloys industry

Credit Weakness

- Irregularities in debt-servicing as well as failure to honour financial obligation arising from invocation of SBLC issued by the lender for granting loan to its overseas subsidiary owing to liquidity issues
- Closure of operations during the past 2.5 years (March 2014- October 2016), which together with presence of fixed expenses resulted in sizeable losses, erosion in net-worth and depletion in cash reserves
- Issues in procurement of chrome ore at competitive rates from group company, owing to suspension of operations in two of its four mines because of delay in mining lease renewals and pending litigation
- Non return generating investments in subsidiaries
- Susceptibility of profitability to cyclicality inherent in the Ferro-chrome industry

[1] 100 lakh = 1 crore = 10 million

Description of key rating drivers highlighted above

FAL was a part of FACOR till 2004 before the trifurcation of the FACOR as per BIFR package. As such the promoters of the company have six decades of experience in the Ferro Chrome manufacturing industry, which lends comfort as is also reflected in the satisfactory performance of the company till FY2013. However the Ferro chrome manufacturing plant of the company was shut down in Feb'2014 due to labour unrest. Though the issue was resolved in Dec'2014, the operations didn't resume due to shortage of chrome ore supply owing to mining issues in a group company as well as pressure on Ferro chrome realisations, which made the operations unviable. Despite the suspension of operations, the company continued to incur operating expenses on account of fixed Fuel Supply Arrangement charges and employee costs. Additionally the company was also incurring fixed financial expenses, resulting in the company making cash losses in FY2014-FY2016, which in turn led to depletion of cash balances and partial erosion of networth.

Further, Bank of India (Vishakhapatnam Branch) had issued a SBLC to its Jersey branch for sanctioning USD 10 million loan to FAL's overseas subsidiary - M/s Facor Minerals (Netherlands) B.V. for an overseas mines acquisition. Subsequently, delays in commencement of operations at subsidiary level and ensuing losses resulted in invocation of SBLC and devolvement of liability in company's books during FY2016. As there have been no cash accruals in FAL, the company has failed to honour its financial obligation and continues to remain in default because of which the account has turned NPA.

Analytical approach: Standalone operational and financial profile has been considered to arrive at the issuer's rating. Further, the rating factors in the company's financial obligation arising from invocation of a SBLC issued by lender for granting loan to its overseas subsidiary- M/s Facor Minerals (Netherlands) B.V.

Links to applicable Criteria

- Corporate Credit Rating –A Note on Methodology
  http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf
- Rating Methodology For Entities in the Ferrous Metals Industry
  http://www.icra.in/Files/Articles/Ferrous%20Metals,%20Rating%20Methodology%20Jan%202017.pdf

About the Company:

Facor Alloys Limited (FAL) was incorporated in May 2004, as a part of a restructuring scheme sanctioned to Ferro Alloys Corporation Limited (FACOR). FAL is engaged in manufacturing of Ferro-Chrome. Its manufacturing unit, having an installed capacity of 72,500 tonnes per annum (TPA), is located in Garividi, District Vizag (Andhra Pradesh). The operations at FAL have recently resumed in Oct'2016 after a halt of nearly 30 months on account of labour unrest and shortage of chrome ore supply from the group company FACOR.

About the group:

Ferro Alloys Corporation Limited (FACOR) was incorporated in 1957 by Mr. Uma Shankar Agarwal & the Saraf family. Company's performance was satisfactory till early 1990s. However, certain factors such as debt-funded Diesel-Generator (DG) based power plants, adverse foreign-exchange fluctuations and decline in Ferro-chrome realizations affected the company's ability to repay the debt in its books. Subsequently, as a part of a restructuring scheme approved by all the lenders, FACOR was trifurcated into three separate companies namely FACOR, Facor Alloys Limited (FAL) and Facor Steels Limited (FSL) w.e.f April 1, 2004 based on division of operations and manufacturing facilities.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014	Date & Rating
				February 2017	December 2015	December 2014	February 2014	October 2013
1	Fund Based Working Capital	Long Term	28.16	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
2	Non Fund Based Working Capital	Short Term	33.53	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]A3
3	Unallocated	Long Term	1.21	[ICRA]D	-	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Central Bank of India– Cash Credit	-	-	-	10.72	[ICRA]D
Bank of India– Cash Credit	-	-	-	10.72	[ICRA]D
State Bank India – Cash Credit	-	-	-	3.87	[ICRA]D
Syndicate Bank – Over Draft	-	-	-	2.30	[ICRA]D
Syndicate Bank – Bill Discounting	-	-	-	0.40	[ICRA]D
State Bank of Bikaner and Jaipur – Cash Credit	-	-	-	0.15	[ICRA]D
Bank of India – Letter of Credit*	-	-	-	9.27	[ICRA]D
Bank of India – Bank Guarantee	-	-	-	3.34	[ICRA]D
Central Bank of India – Letter of Credit	-	-	-	9.27	[ICRA]D
Central Bank of India – Bank Guarantee	-	-	-	3.34	[ICRA]D
State Bank India – Letter of Credit	-	-	-	3.35	[ICRA]D
State Bank India – Bank Guarantee	-	-	-	1.20	[ICRA]D
State Bank India – Forward contract	-	-	-	0.60	[ICRA]D
Syndicate Bank– Letter of Credit	-	-	-	2.32	[ICRA]D
Syndicate Bank– Bank Guarantee	-	-	-	0.84	[ICRA]D

Source: Sanction Letters, Data from FAL

**BOI - LC limits frozen till repayment of devolved LC*

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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.

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