Facor Alloys Limited

May 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	28.16	28.16	[ICRA]D; Reaffirmed
Non-fund Based-Working Capital Facilities	33.53	33.53	[ICRA]D; Reaffirmed
Unallocated	1.21	1.21	[ICRA]D; Reaffirmed
Total	**62.90**	**62.90**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term and short-term rating outstanding for the Rs. 62.90-crore[1] bank facilities of Facor Alloys Limited (FAL or the company)[2] at [ICRA]D (pronounced as ICRA D).

Rationale

The rating reaffirmation factors in continued irregularities in debt-servicing by FAL owing to inadequacy of cash flows vis-a-vis debt obligations. While reaffirming the rating, ICRA has taken a note of revival in FAL's operations from November 2016 onwards (post a 30-month operational shutdown) which together with healthy capacity utilisation (102% in FY2018) and favourable ferro chrome prices helped the company report cash profits in the past two financial years. While the company has been able to pare down its overdue obligations supported by cash accruals, unsecured term borrowings and release of funds from working capital, the overdues remain sizeable vis-a-vis marginal cash profits resulting in continued irregularities. In addition to working capital borrowings, FAL's financial obligations comprise a sizeable liability which devolved on invocation of a standby letter of credit (SBLC) issued in favour of an overseas subsidiary.

Going forward, regularisation of debt servicing by the company will remain the key rating sensitivity. In this context, the company's ability to get the SBLC liability refinanced at favourable terms, aligning the repayment obligations with expected cash flows remains crucial. Further, in addition to movement in ferro-chrome realisations, the company's ability to maintain healthy capacity utilisation, get regular supplies of chrome ore at competitive rates and achieve operational and cost efficiencies will remain critical determinants of its profitability and hence credit profile. Key rating drivers

Credit strengths

Experienced promoters with long track record in the Ferro alloys industry: FAL is a part of the Facor group that is promoted by the Saraf family. The promoter group has over six decades of experience in the ferro-alloy industry, which lends comfort as is also reflected in the satisfactory performance of the company till FY2013.

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit challenges

Continued irregularities in debt servicing due to large outstanding obligations and low cash accruals: Besides its own working capital borrowings, FAL's financial obligations comprise a sizeable liability which devolved on invocation of a standby letter of credit (SBLC) issued in favour of an overseas subsidiary. The SBLC had been issued for a USD 10 million borrowing by 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 FAL's books during FY2016. However, FAL failed to honour the financial obligation in absence of cash flows, as its operations had remained suspended for a 30 -month period upto October 2016 on account of various issues such as labour unrest, shortage of chrome ore supply at competitive rates, pressure on ferro chrome realisations as well as high power tariffs. Though the operations resumed from October 2016 onwards and the company has been able to operate the plant at healthy levels supported by conversion work for Tata Steel Limited, the cash accruals remain weak in comparison to outstanding obligations resulting in continued irregularities in debt-servicing.

Procurement of chrome ore at competitive rates in light of non-availability of same from group concern: In the past FAL had been reliant on its group concern Ferro Alloys Corporation Limited (FACOR) for supply of chrome ore. However, reduced mining activities at FACOR post expiry of some leases, poses challenge for FAL to procure chrome ore from external sources in adequate quantity at competitive rates.

Susceptibility of profitability to cyclicality inherent in the ferro-chrome industry: The ferro chrome industry is cyclical in nature which exposes the profitability of the players, including FAL, with non-captive sources of chrome ore to price movement of the same. The cyclicality of ferro chrome industry inturn is derived from the stainless-steel industry which inturn is also cyclical.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Ferrous Metals Industry

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 resumed in October 2016 after a halt of nearly 30 months because of labour unrest and shortage of chrome ore supply from the group company, Facor. Post revival in October 2016, the company achieved a healthy plant capacity utilisation of 89% in FY2017 (pertains to five-month period between Nov 2016 and Mar 2017) and 102% in FY2018.

In FY2018, the company reported a net profit of Rs. 2.90 crore on an operating income of Rs. 313.20 crore, as compared to a net profit of Rs. 0.74 crore on an operating income of Rs. 134.40 crore in the previous year.

About the group:

Ferro Alloys Corporation Limited 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 Ferro Alloys Corporation limited, Facor Alloys Limited and Facor Steels Limited w.e.f April 1, 2004 based on division of operations and manufacturing facilities.

Key financial indicators (Standalone - Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	134.40	313.20
PAT (Rs. crore)	0.74	2.90
Total Comprehensive Income (Rs. crore)	0.46	3.05
OPBDIT/OI (%)	14%	6%
RoCE (%)	13%	31%
Total Debt/TNW (times)	NM*	NM*
Total Debt/OPBDIT (times)	4.95	3.40
Interest coverage (times)	1.17	1.21

** NM: Not meaningful*

Note: PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); TNW: Tangible Net Worth

Source: FAL's Annual Reports and Provisional Financial Statements, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May-2018	Date & Rating in FY2018 -	Date & Rating in FY2017 Feb-2017	Date & Rating in FY2016 Dec-2015
1	Fund-based - Working Capital Facilities	Long-Term	28.16	NA	[ICRA]D	No rating change	[ICRA]D	[ICRA]D
2	Non-fund Based-Working Capital Facilities	Short-Term	33.53	NA	[ICRA]D	No rating change	[ICRA]D	[ICRA]D
3	Unallocated	Long-Term	1.21	NA	[ICRA]D	No rating change	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.46	[ICRA]D
NA	Overdraft	NA	NA	NA	2.30	[ICRA]D
NA	Bill Discounting	NA	NA	NA	0.40	[ICRA]D
NA	Letter of Credit	NA	NA	NA	24.21	[ICRA]D
NA	Bank Guarantee	NA	NA	NA	8.72	[ICRA]D
NA	Forward Contract	NA	NA	NA	0.60	[ICRA]D

Source: Facor Alloys Limited

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About ICRA Limited:

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