August 30, 2019

Facor Alloys Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Facility (Cash Credit)	25.46	10.72	[ICRA]D; reaffirmed
Long-term Fund-based Bank Facility (Bill Discounting)	0.40	0.40	[ICRA]D; reaffirmed
Long-term Fund-based Bank Facility (Overdraft)	2.30	2.30	[ICRA]D; reaffirmed
Long-term/Short-term Unallocated Limits	-	49.48	[ICRA]D/[ICRA]D; reaffirmed
Long-term Unallocated Limits	1.21	-	-
Short-term Non-fund Based Bank Facility (Letter of Credit)	24.21	-	-
Short-term Non-fund Based Bank Facility (Bank Guarantee)	8.72	-	-
Short-term Non-fund Based Bank Facility (Forward Contracts)	0.60	-	-
Total	**62.90**	**62.90**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the continued irregularities in debt servicing by Facor Alloys Limited (FAL) owing to inadequacy of its cash flows vis-à-vis debt obligations. However, while reaffirming the rating, ICRA has noted a sizeable reduction in the company's overdue debt obligations over the last two years, facilitated by generation of surplus cash accruals from the business. Further, ICRA has noted a one-time settlement (OTS) scheme approved by the company's largest lender - Bank of India, in June 2019. As per the OTS terms, the entire amount outstanding (~Rs. 27 crore, including interest of ~Rs. 6 crore outstanding as on March 31, 2019) against a devolved standby letter of credit (SBLC), issued earlier in favour of an overseas subsidiary, is to be paid off by September 18, 2019. In addition, the company has already deposited the amount outstanding against an invoked corporate guarantee in the escrow account (~Rs. 8 crore outstanding as on March 31, 2019), issued earlier in favour of a step-down subsidiary, in the current fiscal.

Going forward, regularisation of debt servicing by the company will remain the key rating sensitivity. Post regularisation of default, the movement in the company's profitability, coverage metrics and hence, credit profile will be contingent on its ability to maintain healthy capacity utilisation, get regular supplies of chrome ore at competitive rates, and achieve operational and cost efficiencies, besides a movement in ferrochrome realisations.

Outlook: Not applicable

Key rating drivers

Credit challenges

Continued irregularities in debt servicing - Besides its own working capital borrowings (Rs. 2.4 crore as on March 31, 2019) and some high-cost term debt availed recently to meet cash flow mismatches (Rs. 10 crore as on March 31, 2019), FAL's external financial obligations comprise some devolved liabilities. These arose on the invocation of an SBLC and a corporate guarantee issued by the company in favour of its overseas subsidiaries. The SBLC was 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 the subsidiary level and ensuing losses resulted in the invocation of SBLC and the devolvement of liability in FAL's books in FY2016. Similarly, a corporate guarantee was issued in favour of Cati Madencilik Ithalat Ve Ihracat A.S. However, FAL failed to honour the financial obligation in the absence of commensurate cash flows. This was because its operations remained suspended for a 30-month period up to October 2016 on account of various issues, such as labour unrest, shortage of chrome ore supply at competitive rates, pressure on ferrochrome realisations and high power tariffs. However, the operations resumed in November 2016 and scaled up at a healthy pace subsequently. FAL reported a healthy revenue growth of ~135% and 16% in FY2018 and FY2019, respectively. Besides uninterrupted chrome ore availability, the recovery in the company's operations was primarily supported by the regular job work orders from Tata Steel Limited (TISCO), which accounted for ~58% of its revenues in FY2019. Supported by generation of surplus cash accruals during FY2018-FY2019, the company paid off a sizeable portion of its overdue liabilities, with the principal outstanding declining to ~Rs. 21 crore as on March 31, 2019 from Rs. 61 crore as on March 31, 2017. Further, the company's largest lender, Bank of India, approved an OTS scheme in June 2019, as per which the principal outstanding together with an interest due of ~Rs. 6 crore is to be paid by September 18, 2019. In addition, the amount of ~Rs. 8 crore outstanding against the invoked corporate guarantee has already been paid in the current fiscal.

Procurement of chrome ore at competitive rates, given non-availability from Group concern - In the past, FAL was reliant on its Group concern, Ferro Alloys Corporation Limited[1] (FACOR), for the supply of chrome ore. However, with reduced mining activities at FACOR post expiry of some leases, FAL is now reliant on external sources to procure chrome ore, exposing itself to availability and price risks.

Exposure to cyclical nature of ferrochrome industry results in volatile cash flows - The company remains exposed to the cyclical nature of the ferrochrome industry. However, the long-term demand outlook for stainless steel, the primary consumer of ferrochrome, remains positive, which in turn supports the favourable demand scenario in the ferrochrome industry.

Liquidity position

The company's liquidity position remains stretched at present, owing to sizeable debt obligations vis-à-vis cash accruals and limited access to working capital borrowings from banks to fund operational requirements. With its overdue obligations likely to be cleared by September 2019 and the company continuing to generate surplus accruals with no incremental capex plans, ICRA expects the liquidity position to improve by the end of FY2020.

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[1]*ICRA has an [ICRA]D rating outstanding for the bank facilities of FACOR. For details, please refer to ICRA's website – www.icra.in*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [ICRA Policy of Default Recognition](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has analysed the standalone business and financial risk profile of FAL

About the company

FAL, incorporated in May 2004 as a part of a restructuring scheme sanctioned to FACOR, manufactures ferrochrome. Its manufacturing unit, having an installed capacity of 72,500 tonne per annum (TPA), is located in Garividi, district Vizianagaram (Andhra Pradesh).

In FY2019, the company reported a net profit of Rs. 12.0 crore on an operating income (OI) of Rs. 361.0 crore, compared to a net profit of Rs. 2.9 crore on an OI of Rs. 311.5 crore in FY2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	132.8	311.5	361.0
PAT (Rs. crore)	0.7	2.9	12.0
OPBDIT/ OI (%)	11.9%	5.3%	7.9%
RoCE (%)	7.5%	7.2%	13.5%
Total Debt/ TNW (times)	0.9	0.8	0.6
Total Debt/ OPBDIT (times)	7.2	5.8	2.7
Interest Coverage (times)	1.0	1.0	2.1

Source: FAL's annual reports and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 May 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 February 2017
1	Cash Credit	Long Term	10.72	NA	[ICRA]D	[ICRA]D	No rating change	[ICRA]D
2	Bill Discounting	Long Term	0.40	NA	[ICRA]D	[ICRA]D	No rating change	[ICRA]D
3	Overdraft	Long Term	2.30	NA	[ICRA]D	[ICRA]D	No rating change	[ICRA]D
4	Unallocated Limits	Long Term/ Short Term	49.48	NA	[ICRA]D/ [ICRA]D	-	-	-
5	Unallocated Limits	Long Term	-	-	-	[ICRA]D	No rating change	[ICRA]D
6	Letter of Credit	Short Term	-	-	-	[ICRA]D	No rating change	[ICRA]D
7	Bank Guarantee	Short Term	-	-	-	[ICRA]D	No rating change	[ICRA]D
8	Forward Contracts	Short Term	-	-	-	[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	10.72	[ICRA]D
NA	Bill Discounting	NA	NA	NA	0.40	[ICRA]D
NA	Overdraft	NA	NA	NA	2.30	[ICRA]D
NA	Unallocated Limits	NA	NA	NA	49.48	[ICRA]D/[ICRA]D

Source: Facor Alloys Limited

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.

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