

Press Release

TEAM FERRO ALLOYS PRIVATE LIMITED

15 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 36.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 36.00 crore bank facilities of TEAM FERRO ALLOYS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1998, the Dadra & Nagar Haveli-based Team Ferro Alloys Private Limited (TFAPL) is engaged in the manufacturing of ferro alloy products, silico manganese and cored wire. The company is led by Mr. Anoop Gutgutia, Mr. Ram Janam Singh, Mr. Rajesh Kumar Singh and others. The manufacturing capacity stands at 15,500 MTPA (ferro alloys), 20,490 MTPA (silico manganese) and 2,700 MTPA (corded wire). TFAPL is also engaged in the generation of biomass power and has capacity of 8 MW.

Key rating drivers

Strengths

- **Established track record of operations and experienced management**

TFAPL was incorporated in 1998 by Mr. Anoop Gutgutia, Mr. Ram Janam Singh and Mr. Rajesh Kumar Singh, Directors who possess more than two decades in the steel alloy industry.

- **Reputed clientele**

TFAPL caters to reputed steel manufacturers including JSW Steel limited, Jindal Steel & Power Limited and Steel Authority of India Limited. The company also supplies power to Maharashtra State Electricity Board.

- **Moderate scale of operations**

TFAPL registered revenue of Rs. 150.52 crore in FY2017 as against Rs. 128.42 crore in FY2016. This is owing to increase in sale of Ferro Molybdenum which contributed 49 per cent to total sales in FY2017 as compared to 39 per cent in FY2016. Further, in FY2017, sale of power constituted 20 percent of total sales at Rs. 30.91 crore. The company booked revenue of Rs.125.52 crore from April to December 2017 and has orders-in-hand of Rs. 24.34 crore to be executed by March 2018. SMERA believes that TFAPL's ability to scale up its operations will remain critical in maintaining a stable credit profile.

Weaknesses

- **Thin profitability**

The operating margins (EBITDA) stood at 5.66 percent in FY2017 as against 5.45 per cent in FY2016. The company subsidised its power cost through indigenous power generation and consumption. The profit after tax (PAT) margin stood at 0.19 percent in FY2017 compared to 0.06 percent in FY2016. The PAT margins are thin due to high finance cost. However, the same is expected to further reduce as the company has plans to prepay its long term loan obligations. SMERA believes that the company's net profitability is expected to improve over the medium term on the back of expected reduction in debt obligation.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs. 36.81 crore as on 31 March, 2017 as

against Rs. 29.92 crore as on 31 March, 2016. This includes unsecured loans from promoters of Rs. 10.11 crore and Rs. 3.50 crore respectively. The gearing (debt-to-equity) stood at 0.67 times as on 31 March, 2017 as against 1.02 times as on, 31 March, 2016. The total debt consists of long term loans of Rs. 5.51 crore, short term unsecured loans from financial institutions of Rs. 2.71 crore and working capital borrowings of Rs. 16.59 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 1.42 times in FY2017 as compared to 1.19 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood weak at 0.94 times in FY2017. SMERA expects the company to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

- Susceptibility to volatility in raw materials prices, intense competition**

The rating is constrained by the company's exposure to cyclicity in the ferro alloy industry, volatility in cash flows, profitability and deterioration of debt coverage indicators in 2016. Weakening of ferro prices during FY2016 coupled with lower demand resulted in decline in revenue in 2017.

Analytical approach

SMERA has considered the standalone business and financial risk profile of the company to arrive at this rating.

Outlook- Stable

SMERA believes that TFAPL will maintain a stable outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in revenue and profitability resulting in improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profitability resulting in deterioration in the financial risk profile or further elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	150.52	128.42	164.78
EBITDA	Rs. Cr.	8.52	6.99	7.70
PAT	Rs. Cr.	0.28	0.07	-0.29
EBITDA Margin	(%)	5.66	5.45	4.67
PAT Margin	(%)	0.19	0.06	-0.18
ROCE	(%)	12.34	8.85	18.45
Total Debt/Tangible Net Worth	Times	0.67	1.02	1.35
PBDIT/Interest	Times	1.42	1.19	1.36
Total Debt/PBDIT	Times	2.60	3.87	4.59
Gross Current Assets (Days)	Days	145	189	126

Status of non-cooperation with previous CRA (if applicable)

ICRA has moved the ratings for the Rs. 52.10 crore bank facilities of Team Ferro Alloys Private Limited (TFAPL) to the 'Issuer Not Cooperating' category. The rating is now denoted as [ICRA] BB+ (Negative)/A4+ (ISSUER NOT COOPERATING).

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure- Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BB+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A4+
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

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ABOUT SMERA

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