

## Press Release

Deccan Ferro Alloys Private Limited

February 25, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A2+   Assigned
Bank Loan Ratings	15.00	ACUITE A-   Stable   Assigned	-
Bank Loan Ratings	20.00	ACUITE A-   Stable   Reaffirmed	-
Bank Loan Ratings	40.00	-	ACUITE A2+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	85.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed a long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and Short term of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs 60.00 Cr bank facilities of Deccan Ferro Alloys Private Limited (DFAPL). The outlook is '**Stable**'.

Acuite has assigned a long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and Short term of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs 25 Cr bank facilities of Deccan Ferro Alloys Private Limited (DFAPL).

### About the Company

Deccan Ferro Alloys Private Limited was incorporated by Mr Siva Rama Raju Pericheria in 2000. The company is engaged in manufacturing of ferro manganese and silico manganese. The company has a production facility in Visakhapatnam, Andhra Pradesh with an installed capacity of 39000 MT per annum.

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of DFAPL to arrive at the rating

### Key Rating Drivers

### Strengths

## **Experience management**

DFAPL is promoted by Mr Siva Rama Raju Pericheria who possesses almost two decades of experience in ferro alloys industry. The company has strong customer base which includes reputed steel players such as JSW Steel Limited, Arcelor Mittal Nippon Steel India Limited, Rashtriya Ispat Nigam Limited among others. The company has been associated with their key customers almost since inception. Acuité believes that the extensive experience of the promoter would continue to help in the business risk profile of the company going forward.

## **Comfortable financial risk profile**

The financial risk profile of the company is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs. 56.71 Cr in FY2021 as compared to Rs. 39.28 Cr in FY2020. The gearing of the company stood comfortable at 0.66 times as on March 31, 2021 as compared to 1.58 times as on March 31, 2020 due to a sharp decline in their debt level. The company has low reliance on fund based limit as reflected from its minimal utilization of fund based limits. TOL/TNW stood at 1.05 times in FY21 as against 2.00 times in FY20. Interest coverage ratio (ICR) stood strong at 13.70 times in FY2021 as against 5.38 times in FY 2020. The debt service coverage ratio (DSCR) also stood strong at 6.03 times in FY2021 as against 2.73 times in FY2020. The net cash accruals against total debt (NCA/TD) stood at 0.53 times in FY2021 as compared to 0.13 times in previous year. Acuité believes the financial risk profile of the company will improve over the medium term backed by improving trend in accruals and the absence of any large debt-funded capex plan over the medium term.

## **Healthy revenue growth along with improvement in profitability margin in FY22**

The company had reported range bound revenues which stood at Rs 248.99 Cr. in FY21 as against Rs 239.84 Cr in FY20. The company is expected to witness strong revenue growth in FY22 backed by significant rise in average realization of ferro alloys because of increasing demand from steel makers. The company has recorded revenue of around Rs 195 Cr till September 2021 (provisional). However the scale of operation is expected to remain at similar level over the medium term due to absence of expansion plan. The profit margin of the company had witnessed substantial improvement as reflected from its EBITDA margin of 10.83 percent in FY21 as against 4.87 percent in FY20. The improvement is driven by rise in EBITDA per tonne to Rs 7066 in FY21 from Rs 3203 in FY20. The profitability margin is expected to witness significant improvement as the company has already posted EBITDA margin of about 19 percent during H1FY22 (provisional). Acuité believes the profitability will remain at healthy level over medium term on account of buoyancy in the steel industry.

## **Weaknesses**

### **Working capital intensive**

The company has high working capital intensity as evident from its moderate gross current asset (GCA) days of 107 days in FY'21 as 118 days in the previous year. The moderate GCA days are due to high debtor days of around 57 days in FY21 as against 53 days in FY20. Reason for high debtor level is stretched receivables from reputed corporates who have strong negotiation power. The inventory days stood at 36 days in FY21 as against 44 days in FY20. Acuité believes that the operations of the company will continue to be working capital intensive because of stretched receivables.

### **Rating Sensitivities**

Substantial improvement in the scale of operation along with product diversification

Deterioration in capital structure

### **Material covenants**

Not Applicable

## Liquidity profile: Adequate

The company has adequate liquidity as reflected from low utilization of working capital limits of around 7 percent during the past 10 months ended January 2022. The liquidity position is enhanced from the comfortable net cash accrual of Rs. 19.90 Cr during FY21 as against nominal debt repayment of 1.71 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 48-Rs52 Cr as against current maturity of around Rs.3 Cr from FY22-FY23. Current ratio stood comfortable at 1.63 times during FY21. The Cash & Cash equivalent stood high at 10.92 Cr as on 31.03.2021. Acuite believes the liquidity position of the company will remain adequate backed by steady accrual over the medium term.

## Outlook: Stable

Acuite believes the outlook on company will remain 'Stable' over the medium term backed by its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' if the company is able to improve its scale of operations significantly while sustaining their financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue growth or deterioration in capital structure.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	248.99	239.84
PAT	Rs. Cr.	17.43	5.66
PAT Margin	(%)	7.00	2.36
Total Debt/Tangible Net Worth	Times	0.66	1.58
PBDIT/Interest	Times	13.70	5.38

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Cash Credit	Long Term	15.00	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-   Stable   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-   Stable   Assigned
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+   Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+   Assigned

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### About Acuité Ratings & Research

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