

Press Release

Deccan Ferro Alloys Private Limited

December 15, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	10.00	-	ACUITE A2+ Assigned
Bank Loan Ratings	50.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	95.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the 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 85.00 Cr bank facilities of Deccan Ferro Alloys Private Limited (DFAPL). The outlook is '**Stable**'.

Acuite has assigned the short term of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs 10.00 Cr bank facilities of Deccan Ferro Alloys Private Limited (DFAPL)

Rationale for the rating

The ratings reflect strong operational performance in FY22 supported by healthy revenue growth with sharp improvement in operating margin. The improvement is driven by exceptional rise in realization of ferro alloys due to rise in demand from both domestic and overseas markets. Further, company has robust financial risk and superior liquidity profile as reflected from its conservative capital structure and high cash & cash equivalent. However, the ratings are constrained by high customer concentration and cyclical nature of industry.

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

Experienced 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.

Healthy revenue growth with significant improvement in profit margin

The company registered strong revenue growth of 67 percent during FY22 as against 3.81 percent in FY21. The strong growth was driven by rise in sales volume along with substantial increase in average realization of ferro alloys on account of strong demand from steel players and restricted alloy supplies. However, in current fiscal year, realization has witnessed certain moderation because of GOI's intervention regarding export of iron ores and certain steel intermediates during Q1FY23. The company has posted a revenue of Rs 168 Cr in H1FY23 (prov) as against Rs 195 Cr in H1FY22 (prov). Hence the scale of operation is expected to witness a dip in FY23.

The operating margin had improved to 24.75 percent in FY22 from 10.83 percent in FY21 because of high spreads owing to a higher proportionate increase in realization of ferro alloys over raw material costs. Acuite believes the profit margin will remain healthy over the medium-term despite of fluctuation in raw material prices.

Strong financial risk profile

The financial risk profile of the company is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the company stood at 133 crores in FY22 as compared to 56.71 crores in FY21. The gearing of the company stood comfortable at 0.21 times as on March 31, 2022 as compared to 0.66 times as on March 31, 2021. The company has low reliance on fund based limit as reflected from its low utilization of working capital limits. TOL/TNW stood at 0.72 times in FY22 as against 1.05 times in FY21. Interest coverage ratio (ICR) stood strong at 56.05 times in FY2022 as against 13.70 times in FY 2021. The debt service coverage ratio (DSCR) also stood strong at 22.23 times in FY2022 as against 4.09 times in FY2021. The net cash accruals against total debt (NCA/TD) stood at 2.76 times in FY2022 as compared to 0.53 times in previous year. Acuite believes that the financial risk profile will remain healthy over the medium term in the absence of any large debt-funded capex plan over the medium term.

Weaknesses

High customer Concentration

DFAPL has a strong customer base which includes JSW Steel, Arcelor Mittal Nippon Steel India Ltd, Rashtriya Ispat Nigam Ltd among others. However top four domestic customers contribute more than 60 percent of total revenue which indicates high customer concentration. Acuite believes the company is exposed to changes in the requirements and policies of the customers.

Highly fragmented and intensely competitive industry

The ferro alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large sized players in this industry. The presence of a large number of players has a direct impact on pricing, restricts bargaining power having an adverse impact.

Rating Sensitivities

- Sustainability in revenue growth
- Healthy profit margin with strong coverage ratios

Material covenants

None

Liquidity Profile: Strong

The company's liquidity profile stood strong as reflected from its healthy net cash accruals of Rs.78 Cr in FY22 as against nominal debt repayment obligation of Rs. 0.27 Cr. The average utilization of working capital limits stood at 60 per cent during 7 months ended October, 2022. The current ratio stood modest at 1.11 times as on March 31, 2022. The cash and cash equivalent of the company stood at Rs 89 Cr as on March 31, 2022. Acuite believes the company will maintain superior liquidity position over the medium term on account of steady accruals and high cash & bank balance.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	417.20	248.99
PAT	Rs. Cr.	75.55	17.43
PAT Margin	(%)	18.11	7.00
Total Debt/Tangible Net Worth	Times	0.21	0.66
PBDIT/Interest	Times	56.05	13.70

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

None

Any other information

None

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2022	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+ Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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