



Press Release
Deccan Ferro Alloys Private Limited
March 14, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BBB+ Stable Downgraded	-
Bank Loan Ratings	60.00	-	ACUITE A2 Downgraded
Total Outstanding Quantum (Rs. Cr)	95.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE A-**' (read as **ACUITE A minus**) and short term to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs 95.00 Cr. bank facilities of Deccan Ferro Alloys Private Limited (DFAPL). The outlook is '**Stable**'.

Rationale for rating downgrade

The rating downgrade considers steep decline in operating performance of DFAPL in FY2023 and expectation of subdued performance in FY2024. The company reported decline in revenue in FY2023, it stood at Rs.323.17 Cr as against Rs.417.20 Cr in FY2022. It is expected to further decline in FY2024 to ~Rs.175 Cr. The decline in operating income is primarily on account of decline in price realisations of its end products during the year and temporary shut down of two of three production furnaces of DFAPL for the period July to October, 2023. The company also witnessed significant deterioration in profitability metrics denoted by EBITDA margin of 6.66 percent in FY2023 as against 24.75 percent in FY2022. While FY2022 was an aberration, the profits in FY2023 were impacted due to both increased power and fuel costs and input material costs. The EBITDA margin for FY2024 is estimated to remain in the range of 7-8 percent. The rating also remains constrained by high customer concentration and cyclical nature of the industry.

However, the rating continues to factor in the experienced management and healthy financial risk of the company marked by low gearing and healthy debt protection metrics. Acuite also takes note of the ongoing acquisition of another entity by DFAPL, where they are expected to acquire around 55 percent stake in the entity at a total purchase consideration of ~Rs.80 Cr. The target company is engaged in same line of business as DFAPL and also has 30 MW captive power generation capacity. The acquisition is expected to enhance the customer base, operational efficiency and profitability of the group. The acquisition is expected to be completed by March, 2024. Going forward, timely completion of the above acquisition and ability to scale up the operations and profitability of the company while maintaining the capital structure and liquidity position shall be key rating monitorables.

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. Acuite believes that the extensive experience of the promoter would continue to help in the business risk profile of the company going forward.

Healthy 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 Rs.151.01 crores in FY23 as compared to Rs.133.47 crores in FY22. The gearing of the company stood comfortable at 0.23 times as on March 31, 2023 as against 0.21 times as on March 31, 2022. The company has low reliance on fund-based limit as reflected from its low utilization of working capital limits. The average bank limit utilisation for the six months ended December 31, 2023 stood at 12.87 percent for fund based facilities and 34.89 percent for non-fund based facilities. TOL/TNW stood at 0.63 times as on March 31, 2023 as against 0.72 times as on March 31, 2022. Interest coverage ratio (ICR) stood at 14.55 times for FY2023 as against 56.05 times for FY2022. The debt service coverage ratio (DSCR) stood at 9.97 times for FY2023 as against 22.23 times for FY2022. The net cash accruals against total debt (NCA/TD) stood at 0.57 times for FY2023 as against 2.76 times for FY2022.

DFAPL is in advance stages to acquire 55 percent stake in an entity engaged in same line of business as DFAPL at a total purchase consideration of ~Rs.80 Cr. The funding shall be done through internal accruals. The acquisition is expected to enhance the customer base, operational efficiency and profitability of the group. The transaction is currently at advance stages of discussion and is expected to be completed by March, 2024. Acuite believes the company's ability to maintain its healthy financial risk profile post the acquisition shall be a key rating sensitivity.

Weaknesses

Declining operating performance

The company reported revenue of Rs.323.17 Cr in FY2023 as against Rs.417.20 Cr in FY2022. In FY2024, the company has recorded a revenue of Rs.151.46 Cr till February, 2024 and expects to close the year at ~Rs.175 Cr. The sharp decline in revenue during the year is due to temporary shut down of two of three furnaces from the period July to October, 2023. The shut down of furnaces was due to surge in power and fuels costs incurred for running the plants. This temporary shut down was not specific only to DFAPL but had been undertaken by multiple factories in the state due to the steep price increase. The company reported EBITDA margin of 6.66 percent in FY2023 as against 24.75 percent in FY2022. While FY2022 was an aberration, the profits in FY2023 were impacted due to both increased power and fuel costs and input material costs. In 11FY2024, the company has reported EBITDA margin of 8.04 percent and is estimated to remain in the range of 7-8 percent. The net profitability of the company stood at 5.42 percent in FY2023 as against 18.11 percent in FY2022.

Acuite believes the company's ability to scale up its operations and maintain its profitability margins shall remain a key rating sensitivity.

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

- > Ability to scale up its operations and maintain its profitability margins
- > Ability to maintain its capital structure and debt protection metrics post acquisition
- > Timely completion of ongoing acquisition of another entity

Liquidity Position

Adequate

The company's liquidity profile is adequate as reflected from its healthy net cash accruals of Rs.20 Cr in FY23 as against nominal debt repayment obligation of Rs. 0.27 Cr. The average utilization of working capital limits stood at 18.45 per cent during 6 months ended December, 2023. The current ratio stood modest at 1.11 times as on March 31, 2023. The cash and cash equivalent of the company stood at Rs 21.42 Cr as on March 31, 2023. Acuite believes the company will maintain adequate liquidity position against repayment obligations.

Outlook: Stable

Acuite believes the outlook on company will remain 'Stable' over the medium term backed by its experienced management and healthy 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 or delay in completion on ongoing acquisition plan.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	323.75	417.20
PAT	Rs. Cr.	17.53	75.55
PAT Margin	(%)	5.42	18.11
Total Debt/Tangible Net Worth	Times	0.23	0.21
PBDIT/Interest	Times	14.55	56.05

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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
15 Dec 2022	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
25 Feb 2022	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
07 Jan 2022	Cash Credit	Long Term	20.00	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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB+ Stable Downgraded (from ACUITE A-)
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB+ Stable Downgraded (from ACUITE A-)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BBB+ Stable Downgraded (from ACUITE A-)
Bank of Baroda	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A2 Downgraded (from ACUITE A2+)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A2 Downgraded (from ACUITE A2+)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Salony Goradia Senior Manager-Rating Operations Tel: 022-49294065 salony.goradia@acuite.in	

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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