October 07, 2021

Bharat Aluminium Company Limited: Long term Rating upgraded and short-term rating reaffirmed; Rating on NCD withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	650	440	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable)
Non-convertible Debenture	1,000	0	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable) and withdrawn
Term Loan	3,550	1093	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable)
External Commercial Borrowings	US$ 125 million	US$ 50 million	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable)
Non-fund Based Facilities	3,350	3578	[ICRA]A1+ reaffirmed
Commercial Paper	1,000	1000	[ICRA]A1+ reaffirmed
LT/ST Term Loan	0	300	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable) and [ICRA]A1+ reaffirmed
Total	**Rs. 9,550 crore and US$ 125 million**	**Rs. 6,411 crore and US$ 50 million**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade factors in ICRA's expectation of a further improvement in Bharat Aluminium Company Limited's (Balco) financial performance in FY2022 after a material improvement in FY2021, owing to a sharp increase in aluminium prices, globally. Aluminium prices have increased substantially in the past six months, which more than compensated the increase in some of the input costs. In Q1 FY2022, Balco reported an OPBITDA of ~Rs. 1,047 crore (as per provisional numbers) on an operating income of ~Rs. 2,992 crore. With aluminium prices ruling at a higher level in Q2, Balco's OPBDITA is expected to be even higher on a Q-o-Q basis. Such strong cash accruals have helped the company deleverage its balance sheet with a significant reduction of debt. ICRA notes that the company has prepaid a substantial amount of debt, in addition to the scheduled repayment in the current fiscal. The net long term debt at the end of September 2021 is estimated to be ~Rs. 200 crore compared to ~Rs. 1,900 crore as of March 2021.

While revising the rating, ICRA also notes the company's Rs. 6,000-crore capital expenditure plans over the next 18-24 months, which will increase Balco's smelting capacity by 4.2 lakh tonnes per annum. Given the expectations of a firm trend in aluminium prices, Balco's operating cash flows are likely to remain strong, which would be able to fund a substantial portion of the capex, limiting the company's long-term debt requirement. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable. Post the expansion, the company will benefit from increased scale, full utilisation of its power plant and other operational synergies, which would further lead to a reduction in its overall cost of production, thus strengthening its overall operating profile.

Balco has surplus power capacity and sells power from its 300-MW IPPs[1] under the long-term power purchase agreements (PPA), which reduce the off-take risks for the power division and generates steady cash flows for the company. With around 1,440-MW CPP[2] capacity, which is currently at a significant surplus, the risk of high-cost power sourcing requirement for the

[1] *Independent Power Plant*

[2] *Captive Power Plant*

smelting business, even after the expansion is low. Moreover, the surplus power capacity results in inadequate load factor in the power plants, which in turn constrains Balco's overall return on capital employed. Going forward, however, with the expansion of Balco's own smelting capacity, better utilisation of the power plants will lead to an improvement in RoCE levels as well.

ICRA's ratings continue to factor in the status of Balco as a part of the diversified Vedanta Group, having businesses across non-ferrous metals and energy segments. Balco is a strategically important company for the Group, given the Group's stated objective of growing the aluminium business in India. Consequently, Balco enjoys strong operational and management support from the Group. While assigning the ratings, ICRA has not factored in any direct financial linkage with the Group. While Balco's cash flows are expected to remain comfortable relative to its debt service obligations, any unanticipated large capex or investment, or any significant financial support to the Vedanta Group could be a negative trigger.

Key rating drivers and their description

Credit strengths

Favourable price-cost movement to result in a material improvement in financial performance – The financial performance of Balco is expected to witness a material improvement in FY2022, aided by a favourable price-to-cost dynamics. The aluminum realisations have increased substantially in the past six months, which has far outpaced the increase in input costs such as alumina and coal, thus favourably benefiting the company. As a result, Balco earned Rs. 1,047 crore OPBITDA in Q1 FY2022, against Rs. 2,548 crore for the full year FY2021.

Significant improvement in capital structure, liquidity and debt coverage indicators – Healthy cash accruals from operations helped the company deleverage its balance sheet with significant reduction in debt levels in the current year. ICRA notes that Balco has prepaid a substantial amount of its debt outstanding in the current fiscal. Moreover, a healthy cash and liquid investment balance of over Rs. 1,600 crore at the of Q2 FY2022 provides an additional cushion to the liquidity position. With aluminum prices expected to sustain at a firm level over the near term, the company's cash flows are expected to remain healthy. Consequently, the capital structure is expected to significantly improve with a gearing of ~0.4 times in FY2022 (projected) from ~0.9 times in FY2021. Also, the interest cover is estimated to be ~16 times in FY2022 against 6 times in FY2021.

Status of being a part of the Vedanta Group – Balco's status of being a strategic entity of a diversified business Group and the Group's focus on developing its aluminium assets profitably provide significant financial flexibility to the company. Balco has strong operational and managerial linkages with the Group. Balco does not have an in-house refinery and depends on Vedanta's Lanjigarh refinery to meet a part of its alumina requirements. However, capacity constraints at Lanjigarh limited such volumes in the recent past, and Balco is depending on imports to meet its alumina requirements at present. Going forward, ICRA expects alumina volumes from Vedanta to increase, given the capacity expansion, which is currently underway at Lanjigarh.

Credit challenges

Exposure of cash flows to volatility in global aluminium prices – Balco's cash flows remain exposed to the volatility in global aluminium prices as the major portion of the company's sales and operating profits is generated from its aluminium business.

Large capex underway – Balco will undertake a large capex of Rs. 6,000 crore over the next 18-24 months to increase its smelting capacity by 4.2 lakh tonnes per annum. While internal accruals will be enough to meet most of this requirement, additional debt, if any, taken to fund the project is not expected to materially impact the capital structure or debt coverage metrics.

Inadequate utilisation of power capacity impacts overall return on capital employed – The plant load factor (PLF) in Balco's IPPs has remained low in the last few years due to lack of adequate PPAs in place. With conversion of 300 MW of IPPs into CPPs, the PLF of the IPPs improved in FY2020, although the excess CPP capacity compared to the aluminium smelting capacity limits the overall PLF of the CPPs. Nevertheless, with surplus CPP capacity, the risk of sourcing high-cost power for the smelting business has reduced considerably. Going forward, with the proposed expansion of its smelting operations, Balco's power plant is expected to be adequately utilised.

Liquidity position: Adequate

Balco's liquidity position remains adequate. Strong cash accruals from business operations in FY2022 would result in a significant reduction of debt in the current year. Balco has prepaid ~Rs. 826 crore of debt till date in FY2022, which along with scheduled repayment of ~Rs. 813 crore for the year would lead to lower cash requirements in the future. ICRA also notes that the company has adequate headroom in terms of unutilised working capital facility and a cash balance of ~Rs. 1,600 crore as of September 2021. However, ICRA also notes the large capex plan of Rs. 6,000 crore to be undertaken by the company in the next 18-24 months.

Rating sensitivities

Positive factors – Balco's long-term rating may be upgraded if the company is able to sustainably maintain the profit margins and reduce its debt levels, resulting in Net debt/EBITDA below 0.75 times and RoCE greater than 25% on a sustained basis.

Negative factors – The company's ratings can be downgraded if adverse cost-price movement leads to pressure on profits and cash flows. The ratings might also witness pressure if Balco's Net Debt/EBITDA remains above 1.5 times and the RoCE falls below 18% on a sustained basis. Any unanticipated large capex or investment, or any significant financial support to the Vedanta Group could also be a trigger for ratings downgrade.

Analytical approach

Analytical Approach	
Applicable Rating Methodologies	Corporate Credit Rating Methodology Primary Non-Ferrous Metal Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Balco

About the company

Balco, incorporated in 1965, is a 51% subsidiary of Vedanta Ltd. and is involved in the mining of bauxite, smelting of aluminium and generation of power. The Government of India owns the remaining 49% stake of the company. Vedanta Ltd. is 65% owned by Vedanta Resources Limited (rated at B2[3] by Moody's). The company's production units, which consist of 0.57 million metric tonnes per annum (MMTPA) of aluminium smelters and 1,740-MW power plant, are located in Korba, Chhattisgarh.

The Vedanta Group is a diversified resource conglomerate, with business interests mainly in India. The Group's flagship company is Vedanta Ltd., which produces aluminium, iron ore and power. Post the merger, it owns the oil exploration-cum-production facilities of the erstwhile Cairn India Ltd. as well. The Group also has an integrated zinc manufacturing facility in Hindustan Zinc Ltd. (a 64.9% subsidiary of Vedanta Ltd.). In addition, it manages its overseas iron ore, zinc and copper businesses through its 100% subsidiaries.

In FY2021, Balco reported an EBITDA of Rs. 2,548 crore and a PAT of Rs. 1,050 crore on an operating income of Rs. 9,783 crore against a net loss of Rs. 118 crore on the back of net sales of Rs. 8,859 crore in FY2020.

[3] *Corporate Family Rating*

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	8859.0	9783.4
PAT (Rs. crore)	-118.0	1050.0
OPBDIT/OI (%)	8.8%	26.0%
PAT/OI (%)	-1.3%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	1.8
Total Debt/OPBDIT (times)	7.5	1.8
Interest Coverage (times)	1.6	6.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021,* (Rs. crore)		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Oct 07, 2021	**Mar 1, 2021**	**Apr 03, 2020 July 06, 2020 Aug 03, 2020**	**Jan 17, 2020 July 04, 2019 Jun17, 2019**	**July 13, 2018**
1	Non-convertible Debenture	Long Term	1000	-	[ICRA]AA(Stable) Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	1093	1093	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	External Commercial Borrowings	Long Term	USD 50 million	USD 50 million	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Fund-based Facilities	Long Term	440	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
5	Non-fund Based Facilities	Short Term	3,578	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial Paper	Short Term	1,000	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Term Loan	Long term/Short term	300.0	300.0	[ICRA]AA(Stable) /[ICRA]A1+				

**Only term debt*

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT - Fund-based Facilities	Simple
Non-convertible Debenture	Very Simple
LT/ST - Term Loan	Simple
LT FB - Term Loan	Simple
External Commercial Borrowings	Very Simple
Non-fund Based Facilities	Simple
Commercial Paper	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Term Loan	2015-2019	-	2021-2027	1093	[ICRA]AA(Stable)
NA	LT/ST - Term loan	Not availed yet			300	[ICRA]AA(Stable)/[ICRA]A1+
NA	External Commercial Borrowings	-	-	2021-2022	US$ 50 Million	[ICRA]AA(Stable)
NA	Fund-based Facilities	-	-	-	440	[ICRA]AA(Stable)
NA	Non-fund-based Facilities	-	-	-	3,578	[ICRA]A1+
NA	Commercial Paper	Not placed yet			1,000	[ICRA]A1+
INE738C07069	Non Convertible Debenture	Fully redeemed			1000	[ICRA]AA(Stable) withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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