

June 14, 2017

Bharat Aluminium Company Limited

Summary of Rated instruments

Instrument*	Rated Amount (in Rs crore)	Rating Action
External Commercial Borrowings	US\$ 133 million	[ICRA]AA- (Stable) assigned
Non Convertible Debenture	1,000	[ICRA]AA- (Stable) assigned
Commercial Paper	1,250	[ICRA]A1+ assigned
External Commercial Borrowings	US\$ 125 million	[ICRA]AA- (Stable) outstanding
Term Loan	2,350 (reduced from Rs 2,500 crore)	[ICRA]AA- (Stable) outstanding
Fund-based Facilities	500	[ICRA]AA- (Stable) outstanding
Non-fund-based Facilities	2,650	[ICRA]A1+ outstanding
Commercial Paper	750	[ICRA]A1+ outstanding
Total	Rs. 8,500 crore and US\$. 258 million	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)¹ to the Rs. 1,000-crore Non-convertible Debenture programme and US\$ 133-million External Commercial Borrowings (ECB) of Bharat Aluminium Company Limited (Balco). The outlook on the long-term rating is Stable. Though the ECB facility of the company is denominated in foreign currency, ICRA's rating for the same is on national rating scale, as distinct from an international rating scale. ICRA has also assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,250-crore commercial paper programme of the company.

ICRA has the long-term rating outstanding of [ICRA]AA- with a Stable outlook, for the Rs. 2,350-crore term loans (reduced from Rs. 2,500 crore), US\$ 125-million ECB and Rs. 500-crore fund-based facilities, and the short-term rating outstanding of [ICRA]A1+ for the Rs. 2,650-crore non-fund based facilities and Rs. 750-crore commercial-paper programme of Balco.

Rationale

The ratings take into account the steady improvement in Balco's debt-protection metrics as a result of production ramp up from its 0.325-million metric tonnes per annum (MMTPA) aluminium smelter, at a time when aluminium prices have improved to buoyant levels, the company registering healthy profits in Q4 FY2017 and the improvement in the overall financial performance of the Vedanta Group. The revision also takes into account the company slowly ramping up mining at its captive bauxite mines in Chhattisgarh and it receiving coal at competitive rates for its captive power plants (CPP) under the CPP coal linkage that Balco secured through the auction conducted by the Government of India. Apart from providing raw material security, bauxite and coal procured through these routes are likely to help reduce Balco's cost of aluminium production in the near term.

¹ For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings, however, also take into account the off-take risks associated with the sale of power from its 600-MW IPP²s. ICRA notes that as on date over 50% of these IPPs do not have a long-term PPA³ in place and the company is selling power from these plants on a merchant basis. The company commissioned its entire portfolio of 1,200 MW (600 MW IPP and 600 MW CPP) of new power plants by March 2016, which helped it reduce its cost of power used in the aluminium smelters. With the new smelter now running at full capacity, efficiency gains are likely to kick in, and per-unit energy costs are expected to reduce further, going forward. Notwithstanding these gains, Balco's cash flows from the aluminium operations would remain exposed to the volatility in international aluminium prices. ICRA, however, takes note of the current deficit in the global aluminium demand-supply balance, which may widen further as a result of key steps taken by the Chinese Government to control production from polluting and illegal aluminium smelters. Consequently, global aluminium prices are expected to remain buoyant, which would keep Balco's cash flows healthy compared to its debt-repayment obligations.

Key rating drivers

Credit Strengths

- Buoyant metal prices to improve profitability and cash flows
- Completion of capacity expansion projects; Scale of operations and cost efficiency likely to improve
- Improved raw material security
- Focus on production and sale of value-added products
- Status as a part of the Vedanta Group, which has strong and diversified presence in the global metals and energy industries

Credit Weaknesses

- Exposure of cash flows to the volatility in global aluminium prices
- Off take risks associated with sale of power from the IPPs
- Moderate capital structure and debt-coverage indicators; debt-protection metrics likely to remain modest
- Current ownership pattern of the company prevents direct funding support from the group

Description of key rating drivers:

The ratings continue to factor in the status of Balco as a part of the Vedanta Group and takes comfort from the strong and diversified portfolio of businesses of the group spanning across non-ferrous metals and energy segments. Balco is a strategically important company in the group, given its stated objective of growing the aluminium business in India, and the fact that Balco enjoys strong operational and management support from the group. However, the overall group structure and Balco's current ownership pattern make it difficult for the group to extend direct financial support to the company as witnessed in the past. As a result, a majority of the company's funding requirements for its capacity expansion projects and also the recent shortfall in its operational cash flows were met from borrowings, which had resulted in a gradual weakening of the company's capital structure in the past few years. The ratings also take into consideration the company's focus on manufacturing value-added products, including aluminium alloys, catering to the domestic and overseas automobile industries, which is likely to reduce Balco's dependence on low-value products and improve its overall realisations. Going forward, with an improvement in accruals, coupled with no significant quantum of additional debt requirement, ICRA expects Balco's capital structure to improve. However, given the large existing debt in its books, the company's debt-coverage indicators would remain at moderate levels, compared to its rating category in the near to medium term.

² Independent Power Producer

³ Power Purchase Agreement



Analytical approach: While assigning the rating, ICRA has taken into consideration the standalone operations of Bharat Aluminium Company Limited.

Links to applicable criteria:

Corporate Credit Rating –A Note on Methodology

About the company:

Balco, incorporated in 1965, is a 51% subsidiary of Vedanta Ltd. and is involved in mining of bauxite, smelting of aluminium and generation of power. The Government of India owns the remaining 49% stake of the company. Vedanta Ltd. in turn is a 50.1% owned by Vedanta Resources Plc (rated at B1⁴ and B3⁵ with a Stable outlook by Moody's). The company's production units, which consist of 0.57-million metric tonne per annum (MMTPA) of aluminium smelters and 2010-MW power plant, are located in Korba in Chhattisgarh.

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

During Q4 FY2017, Balco registered a net profit of Rs. 116 crore on the back of net sales of Rs. 1,910 crore. Balco registered a net loss of Rs. 370 crore during FY2017 on the back of net sales of Rs. 5,742 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

⁴ Corporate Family Rating

⁵ Long Term Senior Unsecured Rating

Rating history for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2016	
				June 2017	May 2017	September 2016	July 2016	March 2016	September 2016	
1	Non Convertible Debenture	Long Term	1000	[ICRA] AA- (Stable)						
2	Term Loan	Long Term	2350	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Positive)	[ICRA] A (Stable)		
3	External Commercial Borrowings	Long Term	US\$ 258 million	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Positive)	[ICRA] A (Stable)		
4	Fund-based Facilities	Long Term	500	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Positive)	[ICRA] A (Stable)		
5	Fund-based Facilities	Short Term	2650	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1		
6	Commercial Paper	Short Term	2000	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1+	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non Convertible Debenture	-	-	-	1000	[ICRA] AA-(Stable)
Term Loan	-	-	2024	2350	[ICRA] AA-(Stable)
External Commercial Borrowings	-	-	2018-2022	US\$ 258 million	[ICRA] AA-(Stable)
Fund-based Facilities	-	-	-	500	[ICRA] AA-(Stable)
Non-fund-based Facilities	-	-	-	2650	[ICRA]A1+
Commercial Paper				2000	[ICRA]A1+

Source: Bharat Aluminium Company Limited



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