

**Balasure Alloys Ltd.****₹48****One of Largest in the Country...!!!****Buy**

May 18, 2018

**Company Background**

Balasure Alloys, formerly known as Ispat Alloys, is a part of Ispat Group was incorporated on 31 May 1984, engaged in the business of manufacturing silicon and ferro alloys. Company has entered into collaborations with Nippon Denro Manufacturing company, Japan; Danieli, Italy; Elkem, Norway; and Outokumpu, Finland. It produces two types of Ferro Chrome; High Carbon Ferro Chrome and Low Silicon Ferro Chrome current capacity of Ferro Chrome is 1,60,000 MTPA. 75% of the Ferro Chrome produced is used in Stainless Steel Industry. The mining lease over an area of 64.463 hectares was executed in favour of BAL for 30 years (till 2030) and as per the new amended mining law, lease is deemed to be extended for 50 years (till 2050). BAL mines situated in Sukinda valley, Odisha around 176 kms from Ferro Chrome plant at Balasure and 28 kms from Ferro Chrome Plant at Sukinda. Govt of Orissa has sanctioned for allocation of 50% area of Chrome Ore Mines in Sukinda Valley. It source its raw material at comparatively cheaper price and the same shall improve the profitability of Balasure. Balasure has 2 plants at Balgopalpur and Sukinda, Odisha. Exports of Ferro Chrome to top stainless steel manufactures in the world; China, India, S Korea, Taiwan, Europe, Japan and America.

**Key Highlights**

- ➔ For FY 17 company posted net sales with growth of 20.7 % to ₹ 10,118.2 mn, operating profit sharply improved to ₹ 2,036.7 mn and net profit rose to ₹ 895.2 mn on YoY basis.
- ➔ Recently Balasure Alloys has entered into a deal to acquire 70% share of Zimbabwe Alloys, deal size is estimated at a little over \$ 90 mn. Consideration would involve a cash payment of \$ 16.47 mn for acquisition of 70% shares from existing shareholders.
- ➔ The target company (Zimbabwe Alloys) operates in same business segment in a separate geography will help Balasure Alloys in creating synergies and in expanding its business base to different parts of the world.
- ➔ The anti-dumping duty on Chinese coke has also put an upward pressure on cost of production.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	9,131.9	8,811.7	10,668.0
Rev. growth (%)	11.28	(3.51)	21.07
EBITDA (INR mn)	986.2	887.6	2,036.7
Net profit (INR mn)	292.4	186.9	895.2
Shares outstanding (mn)	73.9	81.9	91.9
EPS (INR)	3.8	2.2	9.7
EPS growth (%)	(43.03)	(43.75)	350.93
P/E (x)	3.82	7.31	6.99
RONW (%)	13.94	4.57	18.61
ROCE (%)	20.60	12.23	28.36

**Nishant Chopra**

nishantc@indiratrade.com

**Info Codes**

Reuters	: BALS.BO
Bloomberg	: BLSA IN
NSE	: ISPATALLOY
BSE	: 513142

**Market Data**

52 Wk Range (₹)	: 43/100
Shares in Issue (mn)	: 91.9
Market. Cap ( bn)	: 3.79
BSE 2 Wk Avg Vol	: 88000

**Share Holding Pattern (%)**

Promoters Holding	: 59.44
Public & Others	: 37.97
Corporate Holding	: 00.00
Foreign Institution	: 01.91
Institutions	: 00.68

**Investment Theme**

Domestic ferro alloys industry is healthy to tackle competition from Malaysia & Indonesia, even though it is struggle with higher power costs. Power tariff in the country is high compared to other ferro alloy producing countries. India produces 3.5 mt of ferro alloys and consumes around 2.2 mt. Country exported 1.3 mt of ferro alloys, earning a foreign exchange of around ₹ 8,900 cr. Future of the global ferro alloys market is healthy, expanding at an estimated CAGR of 5.9% during the forecast period of 2017 to 2025. The prosperity of the building and construction industry in a number of emerging economies is another key driver of the global ferro alloys market. Worldwide ferro alloys market is projected to reach a valuation of \$188.7 bn by the end of 2025, significantly up from its evaluated worth of \$112.8 bn in 2016.

**One of the large producers of Ferrochrome in the Country...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	8,478.5	8,379.7	(1.2)	10,118.2	20.7
Other Income	338.1	67.4	(80.1)	250.8	272.1
Change in Stocks	(2.3)	(4.8)	108.7	52.2	(1,187.5)
Raw Material Con.	2,680.7	2,714.3	1.3	2,930.6	8.0
Employee Exp.	608.6	567.7	(6.7)	640.3	12.8
Indirect Taxes	315.3	364.6	15.6	299.0	(18.0)
Other Exp.	4,223.6	3,908.1	(7.5)	4,514.6	15.5
Operating Exp.	7,828.2	7,554.7	(3.5)	8,384.5	11.0
Operating Profit	986.1	887.6	(10.0)	2,036.7	129.5
Total Interest	354.0	315.1	(11.0)	393.4	24.8
Gross Profit	632.1	572.5	(9.4)	1,643.3	187.0
Net Dep.	210.6	222.6	5.7	228.0	2.4
Total Taxation	129.1	163.0	26.3	520.1	219.1
Net Profit/Loss	292.4	186.9	(36.1)	895.2	379.0

## 4 Years Balance Sheet

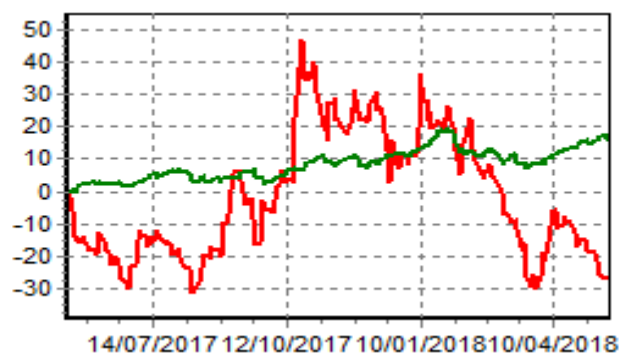
(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>12,196.3</b>	<b>10,256.4</b>	<b>10,313.2</b>	<b>10,545.9</b>
Equity Share capital	336.6	369.6	409.6	459.6
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	26.4	0.0	93.6	70.7
Reserves & Surplus	8,833.7	8,619.6	8,378.5	8,313.4
Secured Loans	845.2	1,086.7	1,147.1	1,326.1
Unsecured Loans	2,154.4	180.5	284.4	376.1
<b>USES OF FUNDS</b>	<b>12,196.3</b>	<b>10,256.4</b>	<b>10,313.2</b>	<b>10,545.9</b>
Gross Block	14,033.6	14,375.4	14,511.1	13,546.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,549.2	5,031.2	5,712.6	5,477.1
Net Block	9,484.4	9,344.2	8,798.5	8,068.9
Capital Work in Progress	779.3	726.9	902.5	942.7
Investments	376.6	340.3	341.2	378.0
Current Assets	2,191.4	2,610.0	3,138.8	4,609.9
Less : Current Liabilities	2,750.2	3,230.8	3,700.7	5,546.4
Total Net Current Assets	(558.8)	(620.8)	(561.9)	(936.5)
Misc. Expenses not writtenoff	2,114.8	465.8	832.9	2,092.8
<b>NOTE</b>				
Book Value of Unquoted Investments	376.7	340.2	341.2	378.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	744.0	682.6	811.9	906.7
Dividend (%)	12.0	12.0	12.0	15.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Mar 17	Jun 17	Sep 17	Dec 17
Net Sales	3,469.9	2,899.8	2,774.6	3,176.0
Cost Of Sales	2,621.4	2,403.4	2,533.5	2,817.3
Operating Profit	848.5	496.4	241.1	358.7
Other Income	114.9	72.5	326.5	136.7
Adjusted PBDIT	963.4	568.9	567.6	495.4
Financial Expenses	145.0	106.1	114.7	122.4
Depreciation	58.1	73.6	72.6	78.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	760.3	389.2	380.3	294.9
Tax Charges	300.3	149.2	165.2	101.4
Reported Profit	460.0	240.0	215.1	193.5
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	460.0	240.0	215.1	193.5

**52 Week Index Relative Percentage Appreciation**

**Balasure Alloys vs SENSEX**
**Risks Associated**

- ➔ Domestic ferro alloys industry is facing competition from Malaysia and Indonesia, along with competition there is another issue; higher power costs.
- ➔ Non availability of low Phosphorus coke in India is another challenge faced by Indian ferro alloy industry and anti-dumping duty on Chinese coke has put an upward pressure on cost of production.
- ➔ During the 3Q CY Enforcement Directorate has seized assets, worth ₹ 244.89 cr, of Balasure whose shareholders are Global Steel Holding Ltd and its chairman Pramod Kumar Mittal who are being probed for defrauding State Trading Corporation.

**Scope of Growth**

- ➔ Company has 2 plants, Balgopalpur, Odisha capacity 1,45,000 MTPA, planned to increase to 1,60,000 MTPA and Sukinda, Odisha capacity 15,660 MTPA, planned to increase to 24,000 MTPA.
- ➔ Zimbabwe Alloys operates in a similar business segment in a separate geography will help Balasure Alloys in creating synergies and in expanding its business base to different parts of the world. Has resources of 72.25 mn tonnes of chrome ore mines.
- ➔ Demand for ferro chrome is driven by the demand of stainless steel. Global stainless steel production growth is expected to average 2.6% pa till 2021, this demand is driven by China and India.
- ➔ Company initiated an underground ore mining project to ensure raw material security for long term business sustainability, adopted latest technology to increase ore output and improve productivity.
- ➔ Company is planning to achieve the target of 1 mn MT of ferro alloys production by 2022.

## Balasore Alloys

### In a Nutshell

Balasore Alloys is engaged in the business of manufacturing silicon and ferro alloys. Major raw materials are Chrome Ore, Coal/Charcoal/Coke-Reductants and Manganese Ore. Orissa has good mines of Chrome Ore in India. Company produces two types of Ferro Chrome; High Carbon Ferro Chrome and Low Silicon Ferro Chrome, 75% of the Ferro Chrome produced is used in Stainless Steel Industry. It has 2 plants at Balgopalpur with capacity of 1,45,000 MTPA, planned to increase by 15,000 MTPA and Sukinda capacity 15,600 planned to increase to 24,000 MTPA. Company is planning to achieve 1 mn MT of ferro alloys production by 2022. More than 95% of the chromite resources are located in Odisha, India's production is nearly 3.94 mn p.a, chrome ore production forms around 13.50% of global production of 29.01 mn. Current World Annual production is 29 mt only. With 80% of global chrome ore reserves, South Africa is the largest supplier of chrome ore to the global ferro chrome industry. In 2016 Government abolished export duty on chrome ore from 30%. Steel industry is one of the major growth driver of ferro alloys industry, as using 80% of ferro alloys in stainless steel production. For FY 2017 company has impressive performance with total income ₹ 10,368.98 mn, during the year company's main focus was exports. Out of total income its export revenue is ₹ 8,629.87 mn, this export revenue is higher by 41.04% against the 2016. There was increase in raw materials cost by 11.36% to ₹ 2,930.64 mn and Power & fuel cost also increased due to volume of production increase, cost rose by 9.04% to ₹ 2,784.06 mn. PAT also grown massively by 378.95% to ₹ 895.19 mn. Company announced a dividend of ₹ 0.75 per equity share.

### Indira Group Offices

**Registered Office** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224202 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

**Administrative Office** : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018

**Tel** : 0731-4097170 **Fax** : 0731-4215999 **Email** : [customercare@indiratrade.com](mailto:customercare@indiratrade.com)

**Institutional Dealing Unit** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224209 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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