Prakash Industries Limited

December 15, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	300.95 (Reduced from 353.45)	CARE BB (CWD) (Double B) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**300.95 (Rs. Three Hundred Crore and Ninety-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the rating of Prakash Industries Limited (PIL) under 'credit watch with developing implications' following the provisional attachment of assets worth Rs.227.95 crore by Enforcement Directorate (ED) under ongoing Chotia Coal Block money laundering case. CARE is closely monitoring the developments in this regard and would take appropriate rating action when greater clarity emerges.

The rating of PIL continue to remain constrained by moderation in profitability despite growth in total operating income in FY21 (refers to period April 01 to March 31), customer concentration, susceptibility to volatility in raw material prices and competitive and cyclic nature of steel industry. The rating also continues to take note of non-payment of interest to foreign currency convertible bond holders (FCCB) due to non-furnishing of bank details by investors as reported by the management and statutory auditor of the company. However, the ratings continue to derive strength from its experienced promoters though have history of debt restructuring, strategic location, comfortable capital structure and moderate operating cycle.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT per tonne above Rs. 4000 on a sustained basis
- Improvement in quality of accounts pertaining to audit qualifications and resolving FCCB coupon payment issue.
- Positive developments with respect to on ongoing money laundering case with respect to Chotial Coal Block in Chattisgarh

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Moderation in PBILDT margin below 9% and PBILDT per tonne below Rs. 3000 on a sustained basis
- Any adverse outcome/impact of the ongoing money laundering case.

Detailed description of the key rating drivers

Key Rating Weaknesses

Provisional attachment of assets by Enforcement Directorate (ED)

As per the stock exchange update by the company ED has provisionally attached properties worth Rs.227.95 crore of PIL and promoter group under the provisions of Prevention of Money Laundering Act (PMLA) 2002 in Chotia coal block allocation case. Money Laundering Investigation by ED has revealed that the total coal illegally excavated during the period between 2006 and 2015, valued at Rs. 951.77 crore has been identified as proceeds of crime. The income generated had been used in the acquisition of assets by PIL and its promoters. As per management, all provisionally attached properties are surplus land and the operations of the company shall remain unaffected. Further, the company is in process of seeking legal remedy against the said provisional attachment order. CARE is closely monitoring the developments in this regard and would take appropriate rating action when greater clarity emerges.

Cyclical and competitive nature of the industry

Steel sector has low entry exit barriers and thus has presence of many unorganized players catering to the local and regional demand. The metal industry moves closely with the business cycles including growth in the economy and seasonal changes in the demand-supply situations in the end-user segments. Majority of players tend to benefit in the upside of the cycle as is the current market scenario.

Susceptibility to volatility in raw material prices

The major raw materials for PIL are steel scrap, coal, iron ore and alloys, the prices of which are linked to market and determined on a periodic basis. Thus, exposing the company to the volatility in the prices of raw materials which may have a bearing on its profitability margins. The risk is partially mitigated as the company has a long- term contract for supply of coal with Coal India Limited at notified prices. The company also has a captive iron ore mine at Sirkaguttu Odisha and also procures iron ore through open market.

Going forward, company's ability to effectively manage the volatilities will be a key rating factor.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

Customer concentration risk
PIL has long established relationship with its customers (mainly wholesale traders) across India, however, is exposed to customer concentration risk though slightly reduced to approx. 71% of total operating income in FY21 derived from top ten customers as against 90.90% contribution from top ten customers during FY20. Any adverse changes in procurement levels of these customers may impact company's revenue due to high dependence.

Moderation in profitability despite growth in total operating income in FY21
The company reported growth of 8.11% in total operating income to in FY21 over FY20. The growth is on account of higher sales realization on company's products in line with increasing steel prices. The PBILDT margin further moderated to 9.96% in FY21 from 11.98% in FY20 on account of increase in cost of raw material mainly iron ore coupled with the increased proportion of low value- added products i.e. billets.
During H1FY22 (refers to period April 1 to September 30) the company reported PBILDT margin of 10.17% and PAT margin of 4.36% on a total operating income to Rs. 1,924.31.

Past history of debt restructuring
Past history of debt restructuring in the company in year 1998 and in year 2017. In addition, the company had issued USD 60 Million 5.25% FCCB for the period of 5 years & one day maturing on April 30, 2015 which were also restructured. However, presently the company has been regularly servicing its debt obligation barring the delay in coupon payments to FCCB holders due to non-submission of bank account details.

Key Rating Strengths
Strategic Location of manufacturing plants
PIL's steel manufacturing unit in Champa is strategically located in vicinity to coal reserves and iron ore mines in Chhattisgarh, thereby facilitating economical transportation of raw material and finished goods. Moreover, the iron ore mine allocated at Sikargutta is also in close proximity to the plants thereby leading to lower freight cost. PIL also has an established distribution network to market its steel products in central & western region. Company has also been declared as a successful bidder for Bhaskarpara Coal mine vide letter dated September 07, 2021 issued by Ministry of Coal.

Comfortable capital structure
The company has comfortable capital structure marked by sustained improvement in overall gearing stood at 0.21x as on March 31, 2021 (PY: 0.23x) and interest coverage ratio of 4.37x in FY21 (PY: 3.80x). Total debt/ PBILDT has slightly moderated to 1.84x as on March 31, 2021 (PY: 1.76x). The company's long term debt exposure reducing year on year basis on account of regular scheduled repayments and lower WC limits utilization during FY21. Working capital requirements of the company are being managed internal accruals along with short term unsecured loans and advances amounting to Rs. 112.53 crore as on March 31, 2021.

Moderate operating cycle
PIL has comfortable operating cycle of 27 days in FY21 (PY: 26 days). Current ratio has improved to 1.25x as on March 31, 2021 from 0.96x as on March 31, 2020 mainly on account of higher closing inventory at year end. PIL generally avails credit period of 20-25 days from its suppliers and extends 20-30 days to its customers. Inventory holding remains around one month as company has supply contract with Coal India Limited to supply coal. Procurement of steel scarp is done directly from market.

Experienced promoters though have history of debt restructuring
PIL is presently being managed by Mr. Ved Prakash Agarwal (Chairman) having more than three decades of experience into similar business. The company has a professional management team to support the smooth operations on day to day basis.

Liquidity: Adequate
The company has adequate liquidity marked with expected cash accruals of close to Rs. 250 crore in FY22 against scheduled debt repayments of Rs. 65.87 crore out of which approx. Rs. 39 crore has already been repaid. Sufficient gearing headroom available with overall gearing of 0.21x as on March 21, 2021 to raise additional debt to meet exigencies in future. Further, the company has free cash and bank balance of Rs. 33.72 crore crore as on September 30, 2021 out of which Rs. 28.55 crore held in the form of FDs.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Rating Methodology - Manufacturing Companies
Rating Methodology Steel

About the Company
Prakash Industries Limited (PIL) was incorporated in July 1980 and started its operations as a PVC pipe manufacturer in the year 1981 later diversified into other products. The company is an integrated manufacturer of finished steel products using the direct reduction iron (DRI) route. PIL also has a captive power plant of 245 MW.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H12022 (UA)
Total operating income	2,980.45	3,222.26	1,924.31
PBILDT	356.95	320.96	195.77
PAT	118.19	95.33	83.82
Overall gearing (times)	0.23	0.21	-
Interest coverage (times)	3.80	4.37	5.26

A: Audited, H1: Refers to the period April 01 to September 30

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February 28, 2027	300.95	CARE BB (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	300.95	CARE BB (CWD)	-	1)CARE BB; Stable (29-Oct-20)	1)CARE BB; Stable (04-Oct-19)	1)CARE BB; Stable (07-Sep-18) 2)CARE BB; Stable (03-Apr-18)

*Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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