Prakash Industries Limited

February 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	131.79 (Reduced from 226.60)	CARE BB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of Prakash Industries Limited (PIL) continues to remain constrained by the susceptibility of margins to volatility in raw material prices, competitive and cyclic nature of steel industry and project risk associated with development of coal mine. The rating also continues to take note of non-payment of interest and principal to foreign currency convertible bond holders (FCCB; Not rated by CARE) due to non-furnishing of bank details by investors as reported by the management and statutory auditor of the company. However, the rating continues to derive strength from its experienced promoters though have history of debt restructuring, strategic location of manufacturing plants, comfortable capital structure and moderate operating cycle. The rating also takes cognizance of the improvement in profitability margins during FY23 (A) & H1FY24 (UA) (refers to period April 01 to March 31) though total operating income witnessed moderation in FY23.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in sales volumes above 12 lakh tons and PBILDT per tonne above Rs. 8,000 on a sustained basis
- Improvement in quality of accounts pertaining to audit qualifications and resolving FCCB coupon payment issue.

Negative factors

- Decline in sales volumes below 8 lakh tons and PBILDT margin below 8% on a sustained basis.
- Any adverse outcome/impact of ongoing CBI cases.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE's opinion that PIL would continue to derive strength from its experienced promoters with long track record of operations and strategic location of its manufacturing plants.

Key Weaknesses

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 has captive iron ore mine at Sirkaguttu Odisha and also procures iron ore through open market. Further, the company has received permission to establish for its Bhaskarpara commercial coal mine, the development of the said mine is progressing & the mining lease is likely to be executed in by March 2024. Going forward, company's ability to effectively manage the volatilities shall remain key monitorable.

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.

Ongoing FCCB non-payment issue

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. Presently PIL has outstanding USD 10.80 Mn FCCBs (equivalent to Rs. 91.67 crores as on March 31, 2023). However, presently the company has been regularly servicing its debt obligation barring the delay in coupon and principal

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

payments to FCCB (Not rated by CARE) holders due to non-submission of correct bank account details by investors as reported by the management and statutory auditor of the company.

Project risk

The total projected capex is Rs. 500 crores out of which ~Rs. 400 crores have already been incurred, further Rs. 100 crores expected to be incurred in FY25. The expenses are primarily towards execution of mining lease and development of Bhaskarpara coal mine allocated to the company and routine maintenance CAPEX, the same is financed by unsecured loans of ~Rs. 140-150 crores, and remaining from internal accruals only. Mining lease is to be expected to execute in the current quarter by March 2024. The mine is expected to become operational by Aug-Sep 2024 (post monsoon period).

Key Strengths

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 though have past history of debt restructuring in the company in year 1998 and in year 2017.

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.

Improvement in profitability margins though moderation in total operating income during FY23

The company reported de-growth of 12.35% in total operating income to Rs. 3,443.72 crores in FY23 from Rs. 3,928.72 in FY22, owing to subdued demand due to the ongoing Russia-Ukraine conflict and monetary policy tightening by major economies in the world. However, company has achieved TOI of 1,902.26 crores during H1FY24 (UA). The PBILDT margin improved from 9.95% in FY22 to 12.00% in FY23, on account of lower coal cost owing to higher supplies from coal linkages, further the PAT margins also improved from 4.29% in FY22 to 5.53% in FY23.

Moderate operating cycle

PIL has moderate operating cycle of 27 days in FY23 (PY: 27 days). Current ratio stood at 0.66x as on March 31, 2023 slightly moderated from to 1.16x as on March 31, 2022 mainly on account of increase in trade payables from Rs. 150.95 crores in FY22 to Rs. 202.88 crores in FY23 leading to increase in average creditor period to 21 days as on March 31, 2023 from 16 days in FY22. 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 secured supply contract with Coal India Limited to supply coal and company procures steel scarp directly from market.

Comfortable capital structure with strong net worth base

The company has comfortable capital structure marked by strong net worth base, overall gearing of 0.21x as on March 31, 2023 (PY: 0.21x) and interest coverage ratio of 5.02 times in FY23 slight moderated from 5.38x in FY22 due to marginal increase in finance cost in FY23. Total Debt/GCA also stands comfortable at 1.94x as on March 31, 2023 moderated from 1.74 times as on March 31, 2022.

Liquidity: Adequate

Liquidity is marked adequate by expected cash accruals of ~Rs. 341.07 crores against repayment obligations of Rs. 83.02 crores in FY24 and further aided by cash and cash equivalents of close to Rs. 50-52 crores as on December 31, 2023 held in form of Rs 45 crores lien marked FDRs and Rs. 6-7 crores free FDRs. Operations of the company are further supported by interest free unsecured loans from promoters of Rs. 71.52 crores as on March 31, 2023 which was largely used towards coal mine development.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and actions by the company
Environmental	1.) Company has been focusing on minimizing the adverse impact on environment, health, and safety by upgrading technology, optimum utilization of resources and minimizing effluent/waste generation & adhering the of Pollution Control System 2.) Company has been focusing on conservation of natural resources 3.) Company has Installed efficient and Pollution Control System to control Air & Water Pollution. 4.) Company has Adopted cleaner technologies to reduce the consumption of fuel and water for plant operations and to Ensure Zero Liquid Discharge (ZLD) status.
Social	1.) Company is promoting preventive health care & medical camps, medical aids and ambulance facility 2.) Company promotes education - training & awareness program.
Governance	1.) The company has put in place a sound and well-structured corporate governance framework to operate more efficiently and to ensure that the best interests of its stakeholders are always upheld. The Board of Directors have established a risk management committee to develop a comprehensive risk management strategy.

Applicable criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Steel

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	3,928.72	3,443.75	1,902.26
PBILDT	390.86	413.18	291.85
PAT	168.72	190.48	178.84
Overall gearing (times)	0.21	0.21	0.14
Interest coverage (times)	5.38	5.02	8.17

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2027	131.79	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	131.79	CARE BB; Stable	-	1)CARE BB; Stable (24-Jan-23) 2)CARE BB (RWD) (27-Dec-22)	1)CARE BB (CW with Developing Implications) (15-Dec-21)	1)CARE BB; Stable (29-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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