

SKS Ispat and Power Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.00 (Reduced from 81.82)	CARE BBB (RWN)	Continues to be on Rating Watch with Negative Implications
Long Term / Short Term Bank Facilities	62.00 (Reduced from 95.93)	CARE BBB / CARE A3+ (RWN)	Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of SKS Ispat and Power Limited continues to be under 'credit watch with negative implications' on account of provisional attachment of assets of the company by the Enforcement Directorate. Directorate of Enforcement (ED) had made a press release on June 28, 2023, for provisionally attaching assets worth Rs 517.81 Crore of 'M/s SKS Ispat & Power Ltd' in the form of land, building, plant & machinery along with Roads and Railway siding in connection with a Bank Fraud case of Rs.895.45 crore pertaining to Cethar Ltd. The company has challenged the Provisional Attachment order by filing a writ petition for ad-interim relief in Bombay High Court and the same remains sub-judice currently.

CARE would closely monitor and evaluate the impact of the above developments on the credit quality of the entity and would take a view on the rating when the exact implications of the above are clear.

The ratings continue to factor in comfort from experienced promoters, semi-integrated nature of operations including captive power plants, comfortable financial risk profile and debt protection metrics as indicated by low debt levels, strategic location of the plant, partial linkage for raw material and satisfactory capacity utilisation. The ratings are, however, constrained by moderation in profitability margins in FY23 & 10MFY24, corporate debt restructuring in the past, customer as well as geographical concentration risk, profitability susceptible to volatility in input prices and cyclical nature associated with steel industry.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increase in scale of operations above Rs 2000 crore and operating margins beyond 12% on a sustained basis.
- Resolution of attachment of assets by the Enforcement Directorate.

Negative factors

- Decline in scale of operations below Rs.1000 crore and deterioration in operating margins below 5% on a sustained basis.
- Overall gearing and TD/GCA beyond 0.5x and 5x respectively on a sustained basis.

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters: SKS was incorporated in 2000 by its directors, Mr. Anil Mahabir Gupta and Mr. Deepak Gupta who has an experience of over two decades in steel industry. They are supported by other directors, Mrs. Neeta Mithalal Jain, Mr. Rajeev Sabhlok and Mr. Devida s Kashinath Kambale. The company has a long presence in this sector and has established a healthy relationship with customers for more than a decade.

Semi-Integrated nature of operations including captive power plants: The manufacturing operation of the company is semi-integrated in nature with sponge iron plants, captive power plant, coal washery unit, bloom/billets and rolled products facilities. The company also has 25MW WHRB (which uses waste heat gas as an input generated from DRI Kilns) and 60MW coal-based power plant to meet its power requirement. Apart from meeting its captive requirement, the company sells its excess power to the grid which fetched Rs 11.96 crores in FY23 (P.Y. Rs 7.79 crores) and the sales from the same stood at Rs 18.04 crores for 10MFY24.

Strategic Location of the Plant: In manufacturing of steel products, freight cost constitutes a significant portion as large amount of bulky raw material is required to be sourced to the manufacturing site. The manufacturing facility of the group is located near the sources of main raw material (i.e., iron-ore and coal) required for manufacturing of its products. The iron ore is sourced from suppliers like NMDC (National Mineral Development Corporation), and private players and coal is sourced from South Eastern Coal Fields Limited (SECL). The plant is also well connected through road (State Highway and National Highway) and rail transport (Raipur Railway Station) which facilitates easy transportation of raw materials and finished goods. To facilitate ease of transportation through railways, the company has its own railway siding too.

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

Partial linkage for Raw materials: The company has coal linkage with SECL (South-eastern Coal Fields Ltd) for around 2.50 lakh tonne of coal for a period of 5 years starting Feb 2022 which is mainly used in coal-based power plant. The remaining coal required is sourced from market. For iron ore, company has a linkage with NMDC for a period of 3 years starting from April 1, 2021. For FY24, the allocation made by NMDC is 3 lakh tonne per annum.

Satisfactory capacity utilisation: Capacity utilization (CU) for Sponge iron of the company remained high at around 100% for FY23 and 10MFY24. CU of bloom/billets also stood at 74% during FY23 and around 73% in 10MFY24. CU of Rolled products was around 61% for FY23 and 10MFY24. CU of Ferro Alloys was low at around 38% for FY23 and further moderated to 29% in 10MFY24. During 10MFY24, the company witnessed steady capacity utilization across its entire product segments (except ferro alloys) on the back of improved demand scenario.

Comfortable capital structure and debt protection metrics: Capital structure of the company continued to remain comfortable. The overall gearing ratio stood comfortable at 0.01x as on March 31, 2023. Total debt has reduced from Rs.87.88 crore as on March 31, 2022, to Rs.12.07 crore as on March 31, 2023, due to prepayment of GECL loan of Rs.30.56 crore and lower utilisation of Cash credit facility on year end. Also, debt protection matrices continued to remain comfortable marked by total debt to gross cash accruals (GCA) of 0.15x in FY23 as compared to 0.48x in FY22.

As on Feb 29, 2024, the company's sanctioned limit from SBI reduced from Rs.81.82 crore and Rs.95.93 crore to Rs.40.00 crore and Rs.62.00 for CC, LC & BG facility. The utilization of CC limit is Nil, LC is partially utilized, and BG is fully utilized (15% cash margin).

Apart from that, the company has availed Rs.65.00 crore limits (OD/LC/BG) backed by Rs.72 crore FD (110% margin) from IDBI Bank. As on Jan 31, 2024, the utilized limit stood at around Rs.40 crore.

Key weaknesses

Moderation in profitability margins in FY23 albeit improvement in scale: TOI of the company has shown a growth of 9.23% from Rs.1401.74 crore in FY22 to Rs.1531.07 crore due to both volume & price growth. However, the PBILDT margins have dropped from 13.04% in FY22 to 5.32% in FY23 and 4.29% in 10MFY24 due to the increased cost of raw materials which could not be fully passed through.

Corporate Debt restructuring in the past: Post commencement of operations from 2005 in phased manner, SIPL's operations were impacted post-2008 due to adverse economic scenario, regulatory restrictions/ ban imposed on mining of iron ore in several states, non-availability of quality grade coal at competitive prices and due to recession/regulations the company was not able to revive its sales. The company approached its lenders for Corporate Debt Restructuring (CDR) and the same was approved on Sep 26, 2013. The company has already repaid entire term loan by July 2021.

As articulated by management, the company is in discussion with the lender for finalizing the recompense amount. Further a portion of bank debt has been converted into CCPS (Compulsorily Convertible Preference Shares). The CCPS have been converted into equity shares in 2 tranches (at Rs.15.75 per share in 2020 and at Rs.22.50 per share in 2022) with lenders currently holding ~31.5% shareholding in the company.

Directorate of Enforcement press release dated June 28, 2023, for provisional attachment of assets of the company: Directorate of Enforcement (ED) has made a press release on June 28, 2023, for provisionally attaching assets worth Rs 517.81 crore of the company in the form of land, building, plant & machinery in connection with case pertaining to Cethar Ltd's credit facilities of Rs. 895.45 Crore. As per the press release, it is mentioned that Rs. 565 Crore that was kept off the books in addition to Rs. 228 Crore written off as loss on sale of investments in Cethar Ltd. Further, it was mentioned that in order to be awarded the EPC contract of SKS Power Generation (Chhattisgarh) Limited for about Rs. 3500 Crore, Cethar Ltd had siphoned off Rs. 228 Crore to SIPL under the guise of investment in shares of the then parent company SIPL and the interest accruing @ 12% p.a. compounded was kept off books. This money was accounted as trade receivables until 2016-17 when it was written off as loss on sale of investments by creating backdated/forged agreements. This was done just 2 days prior to the commencement of NCLT proceedings of Cethar Ltd. The press release also mentions that K Subburaj, Director of Cethar Ltd colluded with Anil Gupta, CMD of SIPL with criminal intent to siphon off assets of Rs.793 Crore from the books of Cethar which turned insolvent resulting in liquidation under the IBC, 2016.

However, the company has challenged the Provisional Attachment order on September 25, 2023, by filing a writ petition for ad-interim relief in Bombay High Court (HC). Against the same, the Bombay high court passed an order on December 01, 2023, allowing the competent/adjudicating authority to pass its order under Section 8 of PMLA Act, 2002 and also stated that if the order is against the petitioner, the same cannot be acted upon till the next hearing by the High court. The HC has also directed that the petitioner cannot alienate the attached properties in any manner whatsoever until further proceedings and also directed the ED to file an affidavit-in-reply and rejoinder, if any, till December 5, 2023, and December 11, 2023, and gave next hearing date as December 13, 2023.

The adjudicating authority passed an order on December 1st, 2023, itself confirming the provisional attachment of the said assets. However, on December 13, 2023, the High court granted additional one week to ED for filing of the affidavit and gave next hearing date as January 11, 2024. Post that, no hearing has happened in the Bombay High Court as articulated by the management.

There has been no impact on day-to-day operations of the company as articulated by management. Any order by the High Court shall remain a key monitorable.

Customer as well as geographical concentration risk: The operations of the group are constrained in terms of its geographical reach as majority of its customers are located within the state of Chhattisgarh thereby restricting its market reach outside the state and risking its sustainability of cash flows in times of adverse market conditions. The Top 5 customer's forms about 19% of the total revenue for FY23 as against 31% of the total revenue for FY22.

Profitability susceptible to volatility in input prices: The major raw material [i.e., iron ore and coal] forms the largest component of total cost of sales of steel products. The basic raw materials such as iron ore, coal, pig iron, dolomite, manganese ore which are used for production of sponge iron, billets, ferro alloy & power are directly sourced from the domestic market and the prices of the same are volatile in nature. However, the company has partial coal linkage with SECL for running its coal-based power plant and iron ore linkage with NMDC which helps in reducing volatility in operating margins to a certain extent.

Cyclicality associated with steel industry: Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Besides local factors, the global demand supply situation especially China is major factor impacting the steel prices and volumes. The producers of steel products are essentially price takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Liquidity: Adequate

The company doesn't have any term loans and currently enjoys sanctioned limits of Rs.40 crore Cash credit, Rs.62 crore of LC & BG limits. The utilization of CC limit is Nil, LC is partially utilized, and BG is fully utilized (15% cash margin).

Apart from that, the company has availed Rs.65.00 crore limits (OD/LC/BG) backed by Rs.72 crore FD (110% margin) from IDBI Bank. As on Jan 31, 2024, the utilized limit stood at around Rs.40 crore.

Adequate liquidity position is marked by healthy cash accruals of Rs.81.11 crore against nil debt repayment obligations FY23. Working capital utilization of the company also remained nil in the last twelve months ending January 2024. Going forward, liquidity position of the group is expected to remain adequate on account of healthy cash accruals.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Iron & Steel](#)

About the company and industry

Industry classification

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

Incorporated in April 2000 by Mr. Anil Gupta and Mr. Deepak Gupta, SKS Ispat and Power Limited (SIPL) is a Chhattisgarh based company engaged in the business of manufacturing of sponge Iron, billets, rolled products, ferro alloys and generation of power. The company has integrated steel manufacturing facilities with the installed capacity of 270,000 MTPA of sponge iron, 331,500 MTPA of billets, 384,000 MTPA of rolling mill and 29,200 MTPA of ferro alloy manufacturing unit. SIPL mainly produces long products (structural steel in heavy, medium, light sections) such as channels, beams & angles and also produces MS Wire rods, HB Wire, Silico Manganese etc. It also has a power generation unit of 85MW which is utilized for captive consumption.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	10MFY24 (UA)
Total operating income	1,401.74	1,531.07	1095.59
PBILDT	182.84	81.46	46.99
PAT	93.86	46.47	18.38
Overall gearing (times)	0.10	0.01	-
Interest coverage (times)	14.12	13.31	13.13

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-Cash Credit		-	-	-	40.00	CARE BBB (RWN)
Non-fund-based - LT/ ST-BG/LC		-	-	-	62.00	CARE BBB / CARE A3+ (RWN)

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	Non-fund-based - LT/ ST-BG/LC	LT/ST	62.00	CARE BBB / CARE A3+ (RWN)	1)CARE BBB / CARE A3+ (RWN) (03-Jul-23)	1)CARE A- ; Stable / CARE A2+ (05-Jan-23)	-	-
2	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB (RWN)	1)CARE BBB (RWN) (03-Jul-23)	1)CARE A- ; Stable (05-Jan-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	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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