

SKS Ispat and Power Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00 (Reduced from 40.00)	CARE BB+ (RWN)	Downgraded from CARE BBB; Continues to be on Rating Watch with Negative Implications
Long Term / Short Term Bank Facilities	62.00	CARE BB+ / CARE A4+ (RWN)	Downgraded from CARE BBB / CARE A3+; Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating assigned to SKS Ispat and Power Limited (SIPL) is on the back of deterioration in the financial performance of the company in FY24 marked by moderation in total operating income (TOI) leading to decline in Profit before interest lease depreciation and tax (PBILDT) margin from 5.32% in FY23 to 2.77% in FY24 due to under absorption of fixed overheads, increase in power cost and consumption of stores and spares.

The rating continues to be on 'rating watch with negative implications' on account of provisional attachment of assets of the company by the Directorate of Enforcement (ED). ED made a press release on June 28, 2023, for provisionally attaching assets worth Rs 517.81 crore of SIPL 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 Limited. The company had 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 rating is constrained by corporate debt restructuring of the company in the past and search by Central Bureau of Investigation (CBI) on the premises of the promoter. The rating is also tempered by geographical concentration risk, susceptibility of profitability to volatility in input prices and cyclicity associated with steel industry.

The rating however, derives strength from experienced promoters, semi-integrated nature of operations and strategic location of the plant. The rating also draw comfort from partial linkages for raw materials, satisfactory capacity utilisation and comfortable capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance of scale of operations with operating margins above 5% on a sustained basis.
- Resolution of attachment of assets by ED.

Negative factors

- Overall gearing and Total Debt/Gross Cash Accruals (TD/GCA) beyond 1.50x and 7x respectively on a sustained basis.
- Adverse impact on the cash flows of the company due to ongoing investigation by ED and CBI.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of key rating drivers:

Key weaknesses

Deterioration in financial performance in FY24

The company reported moderation in TOI by around 13% to Rs 1355 crore in FY24 as against Rs 1531 crore in FY23 owing to dip in sales realisation of finished products. The moderation in income led to under absorption of fixed overheads. Moreover, increase in power cost on account of increase in electricity duty payable to power distribution company (DISCOM) on power consumed captively and on account of payment of parallel operation charges to the DISCOM (previously routed through the balance sheet due to legal dispute) also led to lower profitability in FY24. Furthermore, with the plant aging, the consumption of stores and spares has also increased from Rs 67 crore in FY23 (5% of cost of sales) to Rs 78 crore in FY24 (6% of cost of sales) impacting profitability. Resultantly, the PBILDT margin has deteriorated from 5.32% in FY23 to 2.77% in FY24 and Profit after tax (PAT) margin has deteriorated from 3.04% in FY23 to 0.06% in FY24.

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

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 Compulsorily Convertible Preference Shares (CCPS). The CCPS has 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.

Attachment of assets of the company by Directorate of Enforcement

ED had 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 Limited's credit facilities of Rs. 895.45 Crore. As per the press release, 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 Limited. Further, the press release also stated that in order to be awarded the EPC contract of SKS Power Generation (Chhattisgarh) Limited (SPGL; former subsidiary of SIPL) 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 Limited. The press release also mentions that K Subburaj, Director of Cethar Limited colluded with Anil Gupta, Chairman and Managing Director (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 had 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 (HC) passed an order on December 01, 2023, allowing the competent/adjudicating authority to pass its order under Section 8 of Prevention of Money Laundering (PMLA) Act, 2002 and stated that if the order is against the petitioner, the same cannot be acted upon till the next hearing by the HC. The HC also directed that the petitioner cannot alienate the attached properties in any manner whatsoever until further proceedings and 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. The management has also enunciated that there has been no impact on day-to-day operations of the company due to attachment of assets by ED. Any order by the High Court shall remain a key monitorable.

Search by Central Bureau of Investigation (CBI) on the premises of the promoter

On June 14, 2024, the CBI conducted enquiry at 14 locations on the orders of Allahabad High Court after registering a First Information Report (FIR) into an alleged bank fraud of Rs 5717 crore by SPGL. The CBI has booked Anil Mahabir Gupta, promoter of SIPL and ex-Director of SPGL and 26 others alleging that the accused willfully diverted and round-tripped bank funds through bogus share transactions using shell companies, and a significant amount was transferred to British Virgin Islands and British Overseas Territories of Bermuda through fictitious companies.

In its response to the said CBI enquiry, the management of SIPL has articulated that the enquiry was conducted based on order of Allahabad High Court in the personal premises of the promoters (who were former directors of SPGL) and not in plant and office premises of SIPL. Moreover, the management of SIPL does not foresee any implication of this enquiry on the company.

Geographical concentration risk

The operations of SIPL is constrained in terms of its geographical reach as majority of its customers are located in 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.

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 South Eastern Coalfields Limited (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 also impact 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.

Key strengths

Experienced Promoters

The promoters of SIPL, Anil Mahabir Gupta and Deepak Gupta have experience of over two decades in steel industry. 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 excess power produced to the grid which fetched Rs 19.23 crore in FY24 (P.Y. Rs 11.96 crore).

Strategic location of the plant

The freight cost constitutes a significant portion in steel industry as large amount of bulky raw material is required to be sourced to the manufacturing site. The manufacturing facility of SIPL 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 National Mineral Development Corporation (NMDC) and private players while 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.

Partial linkage for raw materials

The company has coal linkage with SECL for around 3.42 lakh tonne of coal (which meets 60% of its coal requirement) for a period of 5 years starting February 2022 which is mainly used in coal-based power plant. The remaining coal required is sourced from market. For iron ore lumps, the company has a linkage of 3 lakh tonne with NMDC for a period of 3 years starting April 2024 while iron ore pellet is sourced locally.

Satisfactory capacity utilisation

The blended capacity utilisation (CU) of the company stood satisfactory at 74% in FY24 (75% in FY23). The CU for sponge iron remained high at around 100% in FY24 (FY23:100%) and 103% in 5MFY25. CU of bloom/billets also stood satisfactory at 72% in FY24 (FY23:74%) and 85% in 5MFY25. CU of rolled products was around 60% in FY24 (FY23: 61%) and 67% 5MFY25. CU of ferro alloys was low at around 32% in FY24 (FY23: 38%) however it improved significantly to 68% in 5MFY25 on account of improved demand scenario.

Comfortable capital structure and debt protection metrics

The capital structure stood comfortable marked by overall gearing at 0.02x as on March 31, 2024 (0.01x as on March 31, 2023). The total debt increased from Rs.12.07 crore in FY23 to Rs 20.42 crore in FY24 owing to higher utilisation of working capital (WC) limits on year end. TD/GCA slightly moderated from 0.15x in FY23 to 0.46x in FY24 on account of higher debt as well as lower cash profits reported in FY24 due to deterioration in operating profitability. However, TD/GCA continues to remain comfortable.

Liquidity: Adequate

Adequate liquidity position is marked by healthy cash accruals of Rs. 44.64 crore in FY24 as against nil debt repayment obligations. The average utilization of fund and non-fund based limits stood at around 17% and 83% respectively for the 11 months ended August 2024.

Environment, social, and governance (ESG) risks- Not Applicable

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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

SIPL, incorporated in April 2000 by Mr. Anil Gupta and Mr. Deepak Gupta, is a Chhattisgarh based company engaged in the manufacturing of sponge iron, billets, rolled products, ferro alloys and generation of power. The company has integrated steel manufacturing facilities with 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. 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, 2023 (A)	March 31, 2024 (A)	5MFY25 (UA)
Total operating income	1,531.07	1,355.42	576.49
PBILDT	81.46	37.55	NA
PAT	46.47	0.77	NA
Overall gearing (times)	0.01	0.02	NA
Interest coverage (times)	13.31	7.43	NA

A: Audited, UA: Unaudited, NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BB+ (RWN)
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	62.00	CARE BB+ / CARE A4+ (RWN)

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	62.00	CARE BB+ / CARE A4+ (RWN)	1)CARE BBB / CARE A3+ (RWN) (02-Apr-24)	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	10.00	CARE BB+ (RWN)	1)CARE BBB (RWN) (02-Apr-24)	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 rated instruments/facilities- Not Applicable**Annexure-4: Complexity level of 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
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Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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