Prakash Industries Limited

February 28, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	95.10 (Reduced from 131.79)	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 raw material price volatility, and competitive and cyclic nature of steel industry. The rating also takes note of Delhi High Court's order for depositing the sum with the court for the foreign currency convertible bonds (FCCB; not rated by CARE Ratings Limited), which remained unpaid due to non-furnishing of correct bank details by investors as reported by the management and statutory auditor of the company.

The rating continues to derive strength from its experienced promoters, despite their history of debt restructuring, strategic location of manufacturing plants, comfortable capital structure, and comfortable operating cycle. The rating also takes cognisance of the growth in scales of operations and improvement in profitability margins in FY24 (A) (refers to period April 01 to March 31) and 9MFY25 (UA) (refers to period April 01 to December 31) and the commencement of commercial operations at the Bhaskarpara Coal Mine.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in sales volumes above 12 lakh tons and profit before interest, lease rentals, depreciation, and taxation (PBILDT) per tonne above ₹8,000 on a sustained basis.
- Improvement in quality of accounts pertaining to audit qualifications and resolving FCCB 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 Ratings' 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.

Detailed description of key rating drivers:

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 raw material volatility, 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. The commercial operation of Bhaskarpara Coal Mine has started, and the coal extraction from the mine has begun, though operations are expected to stabilise in FY26. The coal supplies from this mine shall provide stability to the company's integrated steel operations and result in cost reductions. Going forward, company's ability to become self-sustainable in coal supplies through stabilisation of operations and effectively manage the volatilities shall remain key monitorable.

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

Cyclical and competitive nature of the industry

Steel sector has low entry exit barriers and thus has presence of many unorganised 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 players tend to benefit in the upside of the cycle as is the current market scenario.

Ongoing FCCB non-payment issue and payment scheduled through court order

The company had issued USD 60 million 5.25% FCCB for five years and one day maturing on April 30, 2015, which were also restructured. PIL has an outstanding USD 11.15 Mn FCCBs (equivalent to ₹92.96 crore as on March 31, 2024). The company was unable to repay the coupon and principal payments of FCCB (Not rated by CARE) to bond holders due to non-submission of correct bank account details by investors to them, as reported by the management and statutory auditor of the company. However, on April 10, 2024, the Delhi High Court ordered PIL to deposit a sum with the court for the said FCCBs (20% of the amount on or before June 01, 2024, and the remaining 80% to be paid in 24 equated monthly instalments). Consequently, the company is depositing the amount with the High Court of Delhi under protest per the given schedule. The court has requested the Reserve Bank of India’s (RBI’s) opinion on the remittance due to the incorrect bank details provided by the bondholder.

Key strengths

Experienced promoters though have history of debt restructuring

PIL is presently being managed by Ved Prakash Agarwal (Chairman) having over 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 1998 and 2017.

Strategic location of manufacturing plants

PIL’s steel manufacturing unit in Champa is strategically located in vicinity to coal reserves, iron ore mines in Chhattisgarh & the Bhaskarpara commercial coal mine, facilitating economical transportation of raw material and finished goods. The supplies of coal from the newly operational Bhaskarpara coal mine will result in substantial cost reductions and efficiencies in its plant operations. Moreover, the iron ore mine allocated at Sikargutta is also in vicinity to the plants, leading to lower freight cost. PIL also has an established distribution network to market its steel products in central and western region.

Growth in scale of operations with improvement in profitability in FY24 (A) and 9MFY25 (UA)

The company has reported growth of 6.80% in total operating income (TOI) to ₹3,677.77 crore in FY24, compared to ₹3,443.75 crore in FY23, considering improved demand though sales realisation has been declined. The growth in scales was largely supported by volume growth in the company’s products owing to healthy domestic demand. However, this growth was partially offset by decline in average sales realisation due to continuous correction in steel prices during the year. The PBILDT margin improved from 12.00% in FY23 to 13.40% in FY24, with improvement in profit after tax (PAT) from 5.53% in FY23 to 9.16% in FY24, considering lower coal cost owing to higher supplies from coal linkages and continued operational efficiencies. In 9MFY25 (UA), the company reported TOI to ₹3,169.71 crore with PBILDT margin of 12.83% and PAT margins of 8.35%. The company is continuously receives coal linkages from Coal India Ltd. and obtains supplies of iron ore from its captive iron ore mine in Sirkaguttu, Odisha. With the addition of Bhaskarpara coal mine, the coal supplies from this mine shall provide additional stability to the company’s integrated steel operations and result in cost reductions.

Comfortable operating cycle

PIL has comfortable operating cycle of 21 days in FY24 (PY: 27 days). Current ratio stood at 1.02x as on March 31, 2024, improved from to 0.66x as on March 31, 2023. Average collection period stood stable at nine days in FY24 (PY; nine days), and average creditors’ period stood at 22 days in FY24 (PY: 21 days). 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 apart from sourcing iron ores from its Sirkaguttu mine.

Comfortable capital structure with strong net worth base

The company has a comfortable capital structure marked by strong net worth base of ₹2,932.70 crore as on March 31, 2024 (PY: 2860.74 crore), the increase in the net worth base is primarily due to accretion of profits. However, it is partially offset by an impairment loss of ₹350.20 crore booked through the general reserve in FY24. Overall gearing stood comfortable at 0.12x as on

March 31, 2024 (PY: 0.21x), the improvement was largely due to profit accretion and reduced debt levels. PBIDLT interest coverage ratio stands improved to 8.57x in FY24 from 5.02x in FY23 due to lower finance cost. Total debt to gross cash accruals (TD/GCA) also stands comfortable at 0.72x as on March 31, 2024, improved from 1.94x as on March 31, 2023.

Liquidity: Adequate
Liquidity is marked adequate by estimated cash accruals of ~₹536.57 crore against repayment obligations of ₹51.17 crore in FY25 and further aided by free cash and cash equivalents of close to ₹13.55 crore as on December 31, 2024. PIL has comfortable operating cycle of 21 days in FY24 (PY: 27 days). Current ratio stands at 1.02x as on March 31, 2024, improved from to 0.66x as on March 31, 2023.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Policy on Default Recognition
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Manufacturing Companies
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & mining	Ferrous metals	Iron & steel

PIL was incorporated in July 1980 and started its operations as a PVC pipe manufacturer in 1981, later diversifying into other products. The company is an integrated manufacturer of finished steel products using the direct reduction iron (DRI) route with manufacturing capacity of 1.20 million tonnes for sponge iron, 1.25 million tonnes for billets, and 1.10 million tonnes for finished steel. PIL also has a captive power plant of 245 MW.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	3,443.75	3,677.77	3169.71
PBILDT	413.18	492.64	406.56
PAT	190.48	336.85	264.62
Overall gearing (times)	0.21	0.12	-
Interest coverage (times)	5.02	8.57	11.49

A: Audited UA: Unaudited; 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-Term Loan		-	-	August 31, 2027	95.10	CARE BB; Stable

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	Fund-based - LT-Term Loan	LT	95.10	CARE BB; Stable	-	1)CARE BB; Stable (05-Feb-24)	1)CARE BB; Stable (24-Jan-23) 2)CARE BB (RWD) (27-Dec-22)	1)CARE BB (CW with Developing Implications) (15-Dec-21)

LT: Long 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-Term Loan	Simple

Annexure-5: Lender details

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

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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