

## Prakash Industries Limited

January 24, 2023

### Rating

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	226.60 (Reduced from 300.95)	CARE BB; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE has removed rating watch with developing implications and reaffirmed the long- term rating at CARE BB assigned to the bank facilities of Prakash Industries Limited (PIL) following the Hon'ble High court order quashing the attachment of assets by Enforcement Directorate (ED) under ongoing Chotia Coal Block money laundering case.

The rating of 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 continues to take note of non-payment of interest and principal 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 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 scale of operations with sustained profitability margins during FY22 (refers to period April 01 to March 31).

### 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. 5,000 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

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

#### 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. However, presently the company has been regularly servicing its debt obligation barring the delay in coupon and principal payments to FCCB holders due to non-submission of bank account details.

#### Project risk

The projected capex for FY23 is Rs. 370 crores which shall be primarily towards execution of mining lease and development of Bhaskarpara coal mine allocated to the company, the same to be financed through Rs. 146 crores unsecured loans from promoters and remaining out of internal accruals of the company. The mine is expected to be operational by January 2024.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## 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.

### Growth in scale of operations reported during FY22

The company reported growth of 22.16% in total operating income to Rs. 3,928.72 crore in FY22 over Rs. 3,216.04 in FY21. The growth was largely on account of higher sales realization on company's products in line with increased steel prices. The PBILDT margin remained at a similar level and reported at 9.95% in FY22 slightly improved from 9.79% in FY21 mainly on account of inventory gains realized by the company over the year FY22. During FY22, the company sold more quantity of billets having higher demand in market while sale of wire rods etc have reduced due to lower demand.

During H1FY23 (refers to period April 1 to September 30) the company reported operating income at Rs. 1,928.63 crore with PBILDT margin of 10.37%

### Moderate operating cycle

PIL has moderate operating cycle of 27 days in FY22 (PY: 27 days). Current ratio stood at 1.16x as on March 31, 2022 slightly moderated from to 1.25x as on March 31, 2021 mainly on account of improved debtors' realisation as absolute debtors reduced from Rs. 142.88 crores in FY21 to Rs. 66.30 crores in FY22 due to reduced sales of wire and wire rods having longer credit period and focusing more on sponge iron and billets having lower credit period leading to improvement in average collection period to 10 days as on March 31, 2022 from 19 days in FY21. 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 scrap 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, 2022 (PY: 0.21x) and interest coverage ratio of 5.38 times in FY22 improved from 4.28x in FY21 due to improved PBILDT margins. Total Debt/GCA also stands comfortable at 1.74x as on March 31, 2022 improved from 2.37 times as on March 31, 2021.

### Liquidity: Adequate

Liquidity is marked by expected accruals of Rs. 342 crores against repayment obligations of Rs. 93.17 crores in FY23 and further aided by cash and cash equivalents of close to Rs. 50 crores as on December 31, 2022 held in form of Rs. 34 crores FDOD and Rs. 10-15 crores free FDRs. Operations of the company are further supported by interest free unsecured loans from promoters of Rs. 146.20 crores as on December 31, 2022 received in FY23 which was largely used towards coal mine development.

### 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

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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	3,216.04	3,928.72	1,928.63	Not Available
PBILDT	314.74	390.86	200.09	
PAT	95.33	168.72	83.82	
Overall gearing (times)	0.21	0.21	0.23	
Interest coverage (times)	4.28	5.38	5.38	

A: Audited, UA: Unaudited

**Status of non-cooperation with previous CRA: Not Applicable****Any other information: Not Applicable****Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of the 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	226.60	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	226.60	CARE BB; Stable	1)CARE BB (RWD) (27-Dec-22)	1)CARE BB (CW with Developing Implications) (15-Dec-21)	1)CARE BB; Stable (29-Oct-20)	1)CARE BB; Stable (04-Oct-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the 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](mailto:care@careedge.in) for any clarifications.

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