

Prakash Industries Limited

April 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1000.00	CARE BB; Stable [Double B; Outlook: Stable]	Assigned
Total Facilities	1000.00 (Rs. One Thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Prakash Industries Limited derives strength from the promoter's experience, its established track record, comfortable financial risk profile, strategic location of manufacturing unit and long term availability of raw material. The rating, however, is constrained on account of exposure to volatility in raw material prices, concentrated customer base, past history of debt restructuring and cyclical nature of industry. Going forward, the ability of the company to timely execute the ongoing expansion within the envisaged cost shall remain the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & established track record in steel products

PIL has been into business for more than 3 decades. The promoter, Mr V.P. Agarwal, is an experienced entrepreneur with more than 39 years of experience in the manufacturing industry. The company has a professional management and operations team comprising of qualified professionals, who have technical expertise in the industry.

Strategic Location of finished steel manufacturing unit & Established Distribution Network

PIL's integrated steel 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 steel through the fleet of its own 200 trucks. PIL also has an established distribution network to market its steel products in central & western region and PVC product across northern region i.e. Uttar Pradesh, Uttarakhand, Delhi NCR, Haryana and Punjab.

Improvement in the operating performance and Comfortable capital structure

The financial profile of the company is characterized by the growth in the total operating income, improvement in profitability margin and comfortable capital structure. The total operating income has registered a modest growth 5.80% to Rs 2176.55 crore for FY17 (1 April to 31 March) as compared to Rs 2057.29 crore for FY16 on account of revival of domestic steel demand which led to higher price realization of its steel products. Tangible net worth improved to Rs 2197.51 crore as on March 31, 2017 as compared Rs 2106.54 crore as on March 31, 2016.

Long term availability of raw material for steel and power

Coal and iron are the two major raw materials used in production of Steel Products. Company has entered into fuel supply agreement (FSA) with South Eastern Coalfields Limited to supply approx. 1.56 million tonnes of coal per annum for the period of 5 years. Similarly, PIL has executed a lease agreement with government of Odisha for iron ore mines located Sirkagutta, Keonjhar district, Odisha, for the period of 50 years and mining is expected to start by April 2018. In addition to above, company has captive power plant of 230 MW to meet the power requirements in its unit.

Key Rating Weaknesses

Concentrated customer base

The top 5 customers of the company contributed around 59.76% to the total operating income for FY17 as compared to 46.19% for FY16 thereby reflecting increase in the revenues concentration risk associated with its customer base.

Exposure to raw material price volatility

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The major raw materials for PIL's products are steel scrap, coal, iron ore and alloys, the prices of which are volatile and form a major component as a percentage of total income. Over the previous 3 years, raw material prices have remained within the range of the 68%~70% of total operating income.

Past history of debt restructuring

First instance of the restructuring happened in 1998 on account of huge losses suffered during the recession in the steel industry in the late '90s. As a result, PIL was referred to BIFR (Board for Industrial and Financial Reconstruction) which was finally settled in the year 2009. Recently with the down turn in steel industry due to dumping of steel by china and de-allocation of coal mine of company, term loans availed from Rural Electrification Corporation and corporation bank and FCCB have also been restructured due to delays in serving of its debt obligations. However, company has been regularly servicing its debt obligation post restructuring.

High competition and inherent cyclicality in the steel industry

The steel industry is highly fragmented with large number of local unorganized players in the market. The steel industry is also cyclical with prices driven by demand and supply conditions in the market coupled with strong linkage to the global market. Going forward, protectionism stances taken by countries such as USA could have implication on the steel supply.

Project Implementation Risk

The company has planned capacity augmentation in near future to meet the growing demand of the steel which will be funded through internal accruals. The proposed project not only involves capital investment in near term but also exposes the company to inherent project implementation risks.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)

About the Company

Prakash Industries Limited (PIL) was established in July 1980, promoted by Mr V.P. Agarwal. Over more than 3 decades, PIL is one of India's leading integrated manufacturers of finished steel products using the direct reduction iron (DRI) route. Their business operations are broadly divided into two segments viz. finished steel and poly vinyl chloride (PVC) pipes and company operate through 3 manufacturing units located in Chhattisgarh and Uttarakhand. Company has a capacity of finished steel products and PVC product of 1.10 million tonne and 0.05 million tonne respectively.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2057.29	2176.55
PBILDT	194.40	266.86
PAT	16.10	63.91
Overall gearing (times)	0.40	0.40
Interest coverage (times)	2.74	3.56

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February 2027	1000.00	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	Suspended	-	1)Suspended (12-Dec-16)	1)CARE D (Is) (30-Oct-15) 2)CARE B (Is) (09-Jun-15)	1)CARE BB+ (Is) (Under Credit Watch) (06-Aug-14)
2.	Fund-based - LT-Term Loan	LT	1000.00	CARE BB; Stable	-	-	-	-

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