Prakash Industries Limited

September 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1000.00	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
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 (PIL) continues to factor in the improvement in its financial risk profile on the back of improved operational performance driven by strong demand for steel products and improved realizations leading to improved capital structure and the coverage indicators. Furthermore, the rating continues to draw strength from the promoter's experience, its established track record, strategic location of manufacturing units 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, cyclical nature of industry and past history of debt restructuring. Going forward, the ability of the company to maintain profitable growth without adverse impact on capital structure of the company and timely execution of ongoing capacity expansion within the envisaged cost shall remain the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the financial risk profile

The financial profile of the company is characterized by the healthy growth in the total operating income on the back of growth in volumes in all product segments and improved realizations supported by revival of domestic steel industry. The PBILDT margin improved from 12.26% in FY17 (refers to the period from April 1 to March 31) to 19.99% in FY18 and PAT margin improved from 2.94% in FY17 to 11.45% in FY18. The growth and healthy cash accruals have continued during Q1FY19 (refers to the period from April 1 to June 30), with PBILDT margin of 24.38% and PAT margin of 17.12% during this period. The healthy profitability and cash accruals have significantly improved the debt coverage indicators. The total debt has reduced from Rs.958.70 crore as on March 31, 2017 to Rs.850.22 crore as on March 31, 2018, however the accretion of profits to reserves have strengthened the capital structure leading to an improvement in overall gearing from 0.44x as on March 31, 2017 to 0.31x as on March 31, 2018.

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 around four decades 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.

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 to lease the iron ore mines located Sirkagutta, Keonjhar district, Odisha, with estimated geological reserves of around 9.9 million tonnes for 50 years. The company has already received stage I approval from Ministry of Environment, Forest and Climate change for the aforesaid iron ore mine and awaiting other statutory approvals which are expected by October 2018. In addition to above, company has captive power plant of 230 MW to meet the power requirements in its unit.

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

Key Rating Weaknesses

Concentrated customer base

The top 5 customers of the company contributed around 62% to the total operating income for FY18 as compared to around 60% for FY17 thereby reflecting increase in the revenues concentration risk associated with its customer base.

Exposure to raw material price volatility

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, however in FY18 the raw material cost as a percentage of operating income declined to around 63% owing to improved realizations. Although the company has entered into long term supply agreement of the coal to mitigate them against increase in the price but for the other raw materials company is still exposed to fluctuation.

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 were restructured after delays in servicing of these obligations. However, company has been regularly servicing its debt obligations post restructuring. Further, company had also defaulted on the FCCBs issued in the past which have also been restructured. The statutory auditor, in their report for FY 18 has also reported delays in payments to the bond holders on one of the tranches of the FCCB (not rated by CARE) which has since been fully paid.

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 and stabilization risk thereafter.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel 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)	FY17 (A)	FY18 (A)
Total operating income	2176.55	2941.64
PBILDT	266.86	587.97
PAT	63.91	336.94
Overall gearing (times)	0.44	0.31
Interest coverage (times)	3.56	6.60

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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)
2.	Fund-based - LT-Term Loan	LT	1000.00	CARE BB; Stable	1)CARE BB; Stable (03-Apr-18)	-	-	-

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