Prakash Industries Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	437.06 (1000.00)	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Total Facilities	437.06 (Rs. Four hundred thirty seven crore and six lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Prakash Industries Limited (PIL) continues to be constrained on account of concentrated customer base, exposure to volatility in raw material prices, past history of debt restructuring and cyclical nature of industry. However, the rating derives strength from moderate scale, healthy profitability margins and comfortable financial risk profile marked by low gearing and comfortable debt metrics. The rating continues to draw strength from the promoter's experience, its established track record, strategic location of manufacturing unit and long term availability of raw material.

Going forward, the ability of the company to diversify the customer base, report profitable growth and maintain a comfortable capital structure of the company shall remain the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Concentrated customer base: Over a period of time, PIL has developed long term relationship with various clientele located pan India. However, the top five customers of the company contributed around ~84% to the total operating income for FY19 as compared to ~62% for FY18 thereby reflecting increase in the revenues concentration risk associated with its customer base. Going forward, it shall remain crucial for the company to diversify the customer base to mitigate the risk of reliance on few customers.

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. Although the company has entered into long term supply agreement of the coal to mitigate it against supply risks but it continues to remain exposed to fluctuation in prices of raw materials and finished goods.

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. Term loans availed from Rural Electrification Corporation and corporation bank and FCCB had also been restructured due to delays in serving of its debt obligations. However, company has been regularly servicing its debt obligation post restructuring, barring the delay in coupon payments to FCCB holders due to non-submission of bank account details as reported by the company's management and also by the statutory auditor of the company.

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. Currently, slowing global economic growth, sustained trade war between USA and China and higher steel production by China have impacted the international steel prices which, in turn, also had an effect on domestic steel prices.

Key Rating Strengths

Improvement in the operating performance: The total operating income of the company has reported strong growth of ~22% to Rs.3594.69 crore in FY19 (PY: Rs.2941.64 crore) as a result of higher capacity utilization and buoyant steel demand during the year. PBILDT margin of the company has improved to 22.13% for FY19 (PY: 19.99%). However, the Q1FY20 results reported a drop in operating income to Rs.827 crore (Rs.987 crore in Q1FY19) owing to decrease in the steel prices during the quarter resulting in decline in PBILDT margin to 11.54% (Q1FY19: 24.38%).

Comfortable financial risk profile: The overall gearing of the company has improved to 0.26 times as on March 31, 2019 (PY: 0.31x) on account of decrease in long term loans. The capital structure of the company also remained healthy with tangible net worth improving to Rs.2833.10 as on March 31, 2019 as compared to Rs.2703.88 crore as on March 31, 2018 due to healthy profitability resulting from improved realizations.

Experienced promoters & established track record in steel products: PIL has been into business for more than three decades. The promoter, Mr V.P. Agarwal, has more than 40 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 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 steel through the fleet of its own over 200 trucks. PIL also has an established distribution network to market its steel products in central & western region.

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 secured long term fuel supply of coal from Coal India Limited at stable prices. 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. In addition to above, company has captive power plant of 230 MW to meet the power requirements in its unit.

Liquidity: Adequate
The liquidity profile of the company is marked by sufficient gross cash accruals of Rs.649.26 crore as on March 31, 2019 (PY: Rs.507.19 crore) against loan repayment obligations of Rs.74.46 crore and moderate cash and bank balance of Rs.15.62 crore as on March 31, 2019. The current ratio stood at 0.95x as on March 31, 2019 (PY: 0.97x) and average utilization of fund based limits stood moderate at ~74% in past 12 months ended May 31, 2019.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating methodology – Steel Sector
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 three decades, PIL is one of India's leading integrated manufacturers of finished steel products using the direct reduction iron (**DRI**) route. Pursuant to the order of NCLT, Chandigarh, PVC pipe and Packaging segment of Prakash Industries Limited was demerged into Prakash Pipes Limited, w.e.f April 01, 2018. PIL has a finished steel products capacity of 1.10 million tonne.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2941.64	3594.69
PBILDT	587.97	795.40
PAT	386.25	515.28
Overall gearing (times)	0.33	0.26
Interest coverage (times)	6.60	7.79

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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	437.06	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	Suspended	-	-	-	1)Suspended (12-Dec-16)
2.	Fund-based - LT-Term Loan	LT	437.06	CARE BB; Stable	-	1)CARE BB; Stable (07-Sep-18) 2)CARE BB; Stable (03-Apr-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: None

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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