Prakash Industries Limited

October 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	353.45 (reduced from 437.06)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Facilities	353.45 (Rupees three hundred fifty three crore and forty five lakh 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 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. The rating also takes cognizance of non-payment of interest to foreign currency convertible bond holders (FCCB) due to non-furnishing of bank details by investors as per the company's management. However, the rating derives strength from moderate scale of operations albeit moderation in total operating income as well as profitability margins during FY20 (refers to the period April 1 to March 31) 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 and strategic location of manufacturing unit and secured long term supply for coal.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Diversification in customer base
- Improvement in current ratio above unity
- Greater clarity on FCCB payment issue and improvement in quality of accounts pertaining to audit qualifications

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in sales volume below 8 lakh tonne of TMT and Wire rods combined and PBILDT/Tonne below Rs.3,500/MT
- Any increase in debt levels resulting in gearing exceeding above 0.50x

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 have contributed around 80.79% to the total operating income in FY20 as compared to 83.65% for FY19 reflecting higher dependence on few customers. 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 coal to mitigate it against supply risks but it continues to remain exposed to fluctuation in prices of raw materials and finished goods. The company does not have any long term supply contract for iron ore procurement and is exposed to the volatility in availability and prices of iron ore. The company is largely dependent on procurement of iron ore through open market and during FY20 it witnessed high prices of iron ore which has impacted the profitability of the company since it can only pass the increase in prices to a limited extent to its customer according to the market conditions.

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 last restructuring in YYYY, 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.

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

Cyclicality inherent in steel industry: The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Key Rating Strengths

Moderate scale of operations: The total operating income of the company declined by around 17% from Rs.3,595 crore in FY19 to Rs.2,980 crore in FY20 due to lower sales realization in FY20 coupled with decline in sales volume in FY20. The decrease in sales realizations is in line with the decline in prices of steel products. The profitability also moderated significantly marked by decrease in PBILDT/tonne from Rs.8431/MT in FY19 to Rs.3,873/MT in FY20 and PAT margins from 14.33% in FY19 to 3.97% in FY20. The moderation in PBILDT/tonne can be attributed primarily to lower sales realizations coupled with the increase in cost of raw material mainly iron ore. In Q1FY21 (refers to period April 1 to June 30) the company reported a drop in operating income to Rs.531 crore (Rs.827 crore in Q1FY20) and a PAT of Rs.3.19 crore (Rs.37 crore in Q1FY20) owing to the subdued market conditions on account of covid-19 led lockdown.

Comfortable capital structure: The capital structure of the company remained healthy marked by improvement in overall gearing of the company to 0.23 times as on March 31, 2020 from 0.26 times as on March 31, 2019 due to repayment of term debt. However, the total debt to GCA and total debt to PBILDT deteriorated from 1.12 times and 0.91 times as on March 31, 2019 to 2.38 times and 1.76 times as on March 31, 2020 respectively due to moderation in profitability resulting from decline in realizations. Consequently, interest coverage ratio also deteriorated to 3.80 times in FY19. (PY: 7.79 times).

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. Moreover, the iron ore mines allocated at Sikargutta and Kawardha are 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.

Secured long term supply for coal: 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 notified 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. Currently the entire requirement of iron ore is being met from market; however the company has projected captive use of Sirkagutta mines from FY21. The company is also developing Kawardha mines for fulfilling its iron ore requirement and has estimated capex upto Rs.50 crore each in FY22 and FY23. In addition to above, company has captive power plant of 230 MW to meet the power requirements in its unit.

Industry prospects: India is the second largest crude steel producer in the world. India's crude steel production fell by 1.5% and finished steel production was flat at 109.2 MT in FY20 against 110.9 MT in FY19. Domestic demand for steel was impacted by slowdown in manufacturing activities during the year which was further aggravated by the Covid-19 Pandemic towards the year end. As the lockdown measures continue to relax further in the coming months, steel demand as well as production has been increasing steadily in the domestic market. Monthly steel consumption which had declined to 1.6 mt in Apr 2020, has now recovered to 8.4 mt in July 2020. Domestic demand has witnessed a 'V' shape recovery in the last 3 months (June-Aug 2020). Furthermore, normalcy is gradually getting restored on the supply side as well. CARE expects domestic steel demand to witness steady improvement on the back of opening up of the economy. Demand for steel during the short to medium term period is likely to be supported by automobile and pipes manufacturing sector, improving infrastructure activity (including the railway and metro projects) along with the construction sector (road and bridges construction). However, demand recovery from the real estate sector is likely to take a longer time.

Liquidity: Adequate

Prakash Industries Limited has adequate liquidity marked by expected accruals of Rs.214 crore in FY21 against repayment obligations of Rs.96.80 crore in FY21. PIL has free cash balance to the tune of Rs.29.68 crore as on March 31, 2020 (PY:

Rs.15.62 crore as on March 31, 2019). With a gearing of 0.23 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex. The capex requirement in FY21-FY23 is modular and is expected to be funded by internal accruals. Its fund based limits are utilized to the extent of 87% during the trailing 12 months and the non-fund based limits are utilized fully. The current ratio has improved marginally but remains below unity due to high short term debt (Rs.102.50 crore as on March 31, 2020). The company had availed moratorium extended by banks on its debt facilities.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Rating Outlook and credit watch
Rating Methodology - Manufacturing Companies
Rating Methodology Steel

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 capacity of manufacturing sponge iron up to 1.2 million tonne, Billets up to 1.09 million tonne and Wire Rod up to 0.8 million tonne as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3595	2980
PBILDT	795	357
PAT	515	118
Overall gearing (times)	0.26	0.23
Interest coverage (times)	7.79	3.80

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
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

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 28, 2027	353.45	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	353.45	CARE BB; Stable	-	1)CARE BB; Stable (04-Oct-19)	1)CARE BB; Stable (07-Sep-18) 2)CARE BB; Stable (03-Apr-18)	-

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ajay Dhaka
Group Head Contact no. - +91-11-45333218
Group Head Email ID- - ajay.dhaka@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no. : +91-11-45333200
Email ID: swati.agarwal@careratings.com

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