

Press Release

SKS Ispat and Power Limited (SKS)

June 03, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 482.51 Cr. (Reduced from Rs.727.92 crore)
Long Term Rating	ACUITE BB-/Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE D**' (read as **ACUITE D**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE D**' (read as **ACUITE D**) to the Rs.482.51 crore of bank facilities of SKS Ispat & Power Limited (SKS). The outlook is '**Stable**'.

The rating upgrade reflects the timely payment of debt obligations by SKS in the past six months ended May 2019. The rating upgrade also reflects the overall improvement in the business and financial risk parameters of the company. The rating continues to reflect the experienced management and long track record of operations constrained by cyclical in the steel industry.

The upgrade in rating is also takes into account the overall improvement in profitability metrics. The improvement in profitability metrics further strengthen the financial risk profile of the company marked by healthy net worth of Rs.526.96 crore in FY2019 (Prov.) as compared to Rs.361.64 crore in the previous year, comfortable gearing of 0.66 times in FY2019 (Prov.) as compared to 1.30 times in previous year and comfortable debt protection metrics marked by comfortable interest coverage ratio of 4.65 times in FY2019 (Prov.) and comfortable debt service coverage ratio of 1.72 times in FY2019 (Prov.).

SKS, incorporated in April 2000 at Raipur (Chhattisgarh), is engaged in manufacturing of long steel products (beams, angles, channels, thermo - mechanically treated (TMT) bars and wire rods) along with captive power generation at its plant located in Raipur. The company is also involved in trading of flat steel products.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SKS to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operations

SKS has established operational track record of almost two decades in iron and steel industry. The Directors, Mr. Anil Gupta and Mr. Deepak Gupta have an experience of more than two decades in same line of business. The long experience of the promoters has helped the company to establish comfortable relationship with their customers as well as suppliers.

Above average financial risk profile

The financial risk profile of the company is marked by healthy networth, comfortable gearing and moderate debt protection metrics. SKS has a healthy net worth of Rs 526.96 crs as on 31st March'2019 (Prov.) as compared to Rs 361.64 crore in FY2018, this is mainly due to retention of current year profit.

The gearing of the company stood comfortable at 0.66 times in FY2019 (Prov.) as compared to 1.30 times in previous year. The gearing of the company has improved mainly on account of repayment of long term debt and increase in Networth. The interest coverage ratio stands comfortable at 4.65 times in FY2019 (Prov.) as compared to negative 0.36 times in FY2018 and moderate DSCR of 1.72 times as on 31st March 2019 (Prov.) as compared to negative 0.17 times in the previous year. The net cash accruals against the total debt (NCA/TD) stand moderate at 0.54 times in FY2019 as compared to negative 0.19 times in the previous year.

Weaknesses

Exposure to cyclical in the industry and susceptibility of profitability to volatility in raw material prices

The company is exposed to the inherent cyclical in the iron and steel industry due to its dependence on the infrastructure sector which is correlated to economic cycles. Further, the presence in a highly fragmented and competitive industry limits pricing flexibility. The company's profitability is susceptible to volatility in the prices of major raw materials - iron ore and coal.

Highly fragmented and competitive industry

SKS operates in highly fragmented industry wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Liquidity Position

The company has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company has reported cash profit of Rs.189.21 crore in FY2018-19 (Prov.) against its maturing debt obligation of Rs.60.00 crore. The company's working capital operations are efficiently managed as marked by gross current asset (GCA) days of 71 in FY 2019 (Prov.). However, the working capital limits remain utilised at 100 percent during the last 6 months period ended March 2019. Going forward, Acuité believes liquidity is likely to remain moderate due to healthy accruals as against of repayment obligations and no major capex plan.

Outlook: Stable

Acuité believes SKS will maintain a stable business risk profile in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins and improve its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1194.50	889.46	716.66
EBITDA	Rs. Cr.	225.37	86.17	40.41
PAT	Rs. Cr.	155.20	(125.84)	(28.77)
EBITDA Margin	(%)	18.87	9.69	5.64
PAT Margin	(%)	12.99	(14.15)	(4.02)
ROCE	(%)	24.30	(6.67)	0.48
Total Debt/Tangible Net Worth	Times	0.66	1.30	1.23
PBDIT/Interest	Times	4.65	(0.36)	0.65
Total Debt/PBDIT	Times	1.44	(19.88)	12.15
Gross Current Assets (Days)	Days	71	126	138

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-Jan-2019	Term Loan I	Long Term	157.27	ACUITE D (Indicative)
	Term Loan II	Long Term	14.08	ACUITE D (Indicative)
	Term Loan III	Long Term	9.36	ACUITE D (Indicative)
	Term Loan IV	Long Term	17.41	ACUITE D (Indicative)
	Term Loan V	Long Term	9.25	ACUITE D (Indicative)
	Term Loan VI	Long Term	5.89	ACUITE D (Indicative)
	Term Loan VII	Long Term	14.97	ACUITE D (Indicative)
	Term Loan VIII	Long Term	14.98	ACUITE D (Indicative)
	Term Loan IX	Long Term	17.49	ACUITE D (Indicative)
	Term Loan X	Long Term	4.78	ACUITE D (Indicative)
	Term Loan XI	Long Term	11.72	ACUITE D (Indicative)
	Term Loan XII	Long Term	49.83	ACUITE D (Indicative)

	Cash Credit	Long Term	208.45	ACUITE D (Indicative)
	Letter of Credit	Short Term	159.83	ACUITE D (Indicative)
	Bank Guarantee	Short Term	23.00	ACUITE D (Indicative)
	Proposed Long Term Loan	Long Term	14.61	ACUITE D (Indicative)
23-Oct-2017	Term Loan	Long term	322.03	ACUITE D (Reaffirmed)
	Cash Credit	Long term	208.45	ACUITE D (Reaffirmed)
	Letter of Credit	Short term	159.83	ACUITE D (Reaffirmed)
	Bank Guarantee	Short term	23.00	ACUITE D (Reaffirmed)
	Proposed Long Term	Long term	14.61	ACUITE D (Reaffirmed)
25-Jul-2016	Term Loan	Long Term	337.14	ACUITE D (Downgraded)
	Cash Credit	Long Term	207.95	ACUITE D (Downgraded)
	Letter Of Credit	Short Term	159.83	ACUITE D (Downgraded)
	Bank Guarantee	Short Term	23.00	ACUITE D (Assigned)
	Term Loan	Long Term	18.00	ACUITE C (Withdrawn)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	129.99	ACUITE BB-/Stable (Upgrade from ACUITE D)

Term Loan	Not Applicable	Not Applicable	Not Applicable	6.21	ACUITE BB-/Stable (Upgrade from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.77	ACUITE BB-/Stable (Upgrade from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.30	ACUITE BB-/Stable (Upgrade from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.97	ACUITE BB-/Stable (Upgrade from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB-/Stable (Upgrade from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	30.60	ACUITE BB-/Stable (Upgrade from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	81.82	ACUITE BB-/Stable (Upgrade from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.41	ACUITE BB-/Stable (Upgrade from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.25	ACUITE BB-/Stable (Upgrade from ACUITE D)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	31.17	ACUITE BB-/Stable (Upgrade from ACUITE D)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	72.93	ACUITE A4+ (Upgrade from ACUITE D)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.68	ACUITE A4+ (Upgrade from ACUITE D)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.40	ACUITE A4+ (Upgrade from ACUITE D)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A4+ (Upgrade from ACUITE D)
Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	29.51	ACUITE A4+ (Upgrade from ACUITE D)

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About Acuité Ratings & Research:

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