

Press Release

SKS Ispat and Power Limited

April 06, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs. 257.32 Cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded; Assigned)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded and assigned the long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating to '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.257.32 crore bank facilities of SKS Ispat & Power Limited. The outlook is '**Stable**'.

Acuité has also upgraded and withdrawn the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 103.94 crore bank facilities of SKS Ispat & Power Limited. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating upgrade is driven mainly by a sharp improvement in the liquidity position of the company along with steady improvement in their financial risk profile. The rating also factors in the healthy business risk profile of the company reflected from the integrated nature of operations in the steel industry.

Incorporated in April 2000 by Mr. Anil Gupta and Mr. Deepak Gupta, SKS Ispat and Power Limited (SIPL) is a Chhattisgarh based company engaged in business of manufacturing of sponge iron, billets, rolled products, ferro alloys and generation of power. The company has integrated steel manufacturing facilities with the installed capacity of 2.7 lakhs MTPA of sponge iron, 3.45 lakhs MTPA of billets and 4.13 lakhs MTPA of rolling mills in its manufacturing unit. SIPL mainly produces long products (structural steel in heavy, medium, light sections) such as channels, beams & angles and also produces MS Wire rods, HB Wire, Silico Manganese etc. It also has a power generation unit of 85MW which is utilized for captive consumption.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of SIPL while arriving at the rating.

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

Established in 2000, the company has a track record of two decades in the iron and steel industry. The promoters of the company Mr. Anil Mahabir Gupta and Mr. Deepak Gupta have a business experience spanning more than 20 years. They are supported by other directors, Mr. Neeta Mithalal Jain, Mr. Rajeev Sabhlok and Mr. Devidas Kashinath Kambale, who possesses more than a decade's experience in iron and steel industry. The company has a long presence in this sector and has established a healthy relationship with customers for more than a decade.

Healthy financial risk profile

The financial risk profile of the company is marked by strong net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.639.94 crore in FY 2020 as compared to Rs 571.01 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The total networth of the company includes Rs.277.25 crore of Compulsory Cumulative Convertible Preference Shares (CCCPs) termed as quasi equity in FY2020. Out of this total CCCPs, Rs.117.29 crore has already been converted into equity share on 29th September 2020 and rest Rs.159.96 crore will be converted on 31st March 2022. The gearing of the company stood low at 0.32 times as on March 31, 2020 as compared to 0.56 times as on March 31, 2019. This improvement in gearing is mainly on account repayment of long term debt and improvement in networth of the company during the period. Interest coverage ratio (ICR) is comfortable at

3.72 times in FY2020 as against 5.27 times in FY 2019. The debt service coverage ratio (DSCR) of the company stood modest at 1.23 times in FY2020 as against 2.05 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.49 times in FY2020 as compared to 0.74 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

Healthy scale of operation coupled with healthy profitability margin

The revenue of the company stood healthy at Rs.989.54 crore in FY2020 as compared to Rs.1210.99 crore in the previous year. The decline in the turnover levels have been due to dip in average realization of billets and rolled products even though the company has been able to increase its volume sales. The year end lockdown also impacted the sales of March'20. Currently, the company has earned Rs.941.00 crore till 18th March 2021 (Provisional).

Though the operating profitability margin of the company have declined but still stood healthy at 13.05 per cent in FY2020 as compared to 22.53 per cent in the previous year. The company reported exceptionally high profit margins in FY'19 due to average realization being at very high levels during the year. However, the prices had moderated in FY'20 leading to correction in profit margins. The company is expected to sustain the profit margins earned in FY'20 over the medium term backed by steady demand and stable realization. The net profitability margin of the company stood comfortable at 6.93 per cent in FY2020 as compared to 16.57 per cent in the previous year.

Weaknesses

Intense competition and inherent cyclical nature of steel industry

SKS is exposed to intense competition in steel sector due to the presence of a large number of unorganized players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, SKS's business risk profile is exposed to the inherent cyclical nature in these sectors.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.102.36 crore as against Rs.40.93 long term debt obligation during FY2020. The cash accruals of the company are estimated to remain in the range of around Rs. 99.39 crore to Rs. 117.72 crore during 2021-23 as against Rs.45.36 long term debt obligations in FY2021 and Rs.10.56 crore in FY2022 and in FY2023 respectively. The current ratio of the company stood moderate at 1.15 times in FY2020. The working capital management of the company is marked by Gross Current Asset (GCA) days of 99 days in FY2020. The bank limit of the company has been ~75 per cent utilized during the last six months ended in February 2021. The company has availed the covid emergency fund of Rs.31.67 crore under GECL -II scheme. The loan has already been sanctioned and is yet to be disbursed. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. The company has not availed the loan moratorium till August 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes the company will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established association with customers and suppliers along with healthy financial risk profile. The outlook may be revised to "Positive" in case the company registers significant increase in scale of operations while maintaining their profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the company's scale of operations and profitability or capital structure, or in case of further elongation of working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	989.54	1210.99
PAT	Rs. Cr.	68.62	200.64
PAT Margin	(%)	6.93	16.57
Total Debt/Tangible Net Worth	Times	0.32	0.56
PBDIT/Interest	Times	3.72	5.27

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
05-Mar-2020	Term Loan I	Long Term	78.59	ACUITE BB-/Stable (Reaffirmed)
	Term Loan II	Long Term	6.21	ACUITE BB-(Withdrawn)
	Term Loan III	Long Term	6.77	ACUITE BB-(Withdrawn)
	Term Loan IV	Long Term	4.30	ACUITE BB-(Withdrawn)
	Term Loan V	Long Term	10.97	ACUITE BB-(Withdrawn)
	Term Loan VI	Long Term	30.60	ACUITE BB-(Withdrawn)
	Cash Credit	Long Term	81.82	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	9.41	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	18.25	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	13.28	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	9.41	ACUITE BB-/Stable (Reaffirmed)
	Proposed Long Term	Long Term	31.17	ACUITE BB-(Withdrawn)
	Letter of Credit	Short Term	72.93	ACUITE A4+ (Reaffirmed)

	Letter of Credit	Short Term	10.68	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	13.40	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	13.77	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	15.74	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Reaffirmed)
	Proposed Short Term	Short Term	29.51	ACUITE A4+ (Withdrawn)
03-Jun-2019	Term Loan I	Long Term	129.99	ACUITE BB-/Stable (Upgraded)
	Term Loan II	Long Term	6.21	ACUITE BB-/Stable (Upgraded)
	Term Loan III	Long Term	6.77	ACUITE BB-/Stable (Upgraded)
	Term Loan IV	Long Term	4.30	ACUITE BB-/Stable (Upgraded)
	Term Loan V	Long Term	10.97	ACUITE BB-/Stable (Upgraded)
	Term Loan VI	Long Term	3.50	ACUITE BB-/Stable (Upgraded)
	Term Loan VII	Long Term	30.60	ACUITE BB-/Stable (Upgraded)
	Cash Credit	Long Term	81.82	ACUITE BB-/Stable (Upgraded)
	Cash Credit	Long Term	9.41	ACUITE BB-/Stable (Upgraded)
	Cash Credit	Long Term	18.25	ACUITE BB-/Stable (Upgraded)
	Proposed Long Term	Long Term	31.17	ACUITE BB-/Stable (Upgraded)
	Letter of Credit	Short Term	72.93	ACUITE A4+ (Upgraded)
	Letter of Credit	Short Term	10.68	ACUITE A4+ (Upgraded)
	Letter of Credit	Short Term	13.40	ACUITE A4+ (Upgraded)
03-Jan-2019	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Upgraded)
	Proposed Bank Facility	Short Term	29.51	ACUITE A4+ (Upgraded)
	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	Long Term	14.61	ACUITE D (Indicative)

***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	Oct 2013	12.90%	Mar 2023	47.90	ACUITE BBB-/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	81.82	ACUITE BBB-/Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	31.67	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.41	ACUITE BBB- (Upgraded & Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.25	ACUITE BBB- (Upgraded & Withdrawn)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.28	ACUITE BBB- (Upgraded & Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.41	ACUITE BBB- (Upgraded & Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	72.93	ACUITE A3 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.68	ACUITE A3 (Upgraded & Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.40	ACUITE A3 (Upgraded & Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.77	ACUITE A3 (Upgraded & Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.74	ACUITE A3 (Upgraded & Withdrawn)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	

About Acuité Ratings & Research:

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