

Press Release

SKS Ispat and Power Limited

June 07, 2022



Rating Reaffirmed & Partly Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	118.49	ACUITE BBB+ Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	31.67	ACUITE BBB+ Reaffirmed & Withdrawn	-
Bank Loan Ratings	95.93	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	214.42	-	-
Total Withdrawn Quantum (Rs. Cr)	31.67	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.214.42 Cr bank facilities of SKS Ispat & Power Limited. The outlook is revised to '**Positive**' from '**Stable**'.

Acuité has also reaffirmed and withdrawn the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs.31.67 Cr bank facilities of SKS Ispat & Power Limited.

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the company and no objection certificate received from the banker.

The outlook revised is on account of the continuous improvement in financial risk profile of the company along with strong liquidity position during the period. The outlook revision also factors in the overall improvement in business risk profile of the company marked by continuous improvement in operating income while maintaining the profitability margin at a healthy level. The revenue of the company has increased to Rs.1404.61 crore in FY2022 (Prov.) as compared to Rs.1004.73 crore in FY2021. Further, this increase in revenue of the company is on account of increase in average realization per unit backed by increase in raw material price and better demand for sponge iron, billets, rolled products and ferro alloys during FY2022 (Prov.). The operating profitability margin has also improved to 13.64 per cent in FY2022 (Prov.) as compared to 12.57 per cent in the previous year. The robust financial risk profile of the company is marked by strong network, very low gearing and strong debt protection metrics in FY2022 (Prov.) over FY2021. The strong liquidity of the company is marked by healthy net cash accruals and moderate utilization of working capital facility for the last six months ended April 2022.

About the Company

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 the 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

Long track record of operation and experienced management

SKS was incorporated in 2000 by its directors, Mr. Anil Mahabir Gupta and Mr. Deepak Gupta who has an experience of over two decades in steel industry. They are supported by other directors, Mr. Neeta Mithalal Jain, Mr. Rajeev Sabhlok and Mr. Devidas Kashinath Kambale. The company has a long presence in this sector and has established a healthy relationship with customers for more than a decade.

Integrated nature of operation

SIPL has an integrated steel manufacturing facility, having presence across the value chain and is engaged in manufacturing of sponge iron, billets, rolled products (structural steel in heavy, medium, light sections) such as channels, beams & angles and also produces MS Wire rods, HB Wire, Silico Manganese etc.) and captive power plant of 85 MW. It provides the company flexibility to sell intermediate products as well as use them for captive consumption. The facilities are also supported by captive power plants, waste heat recovery plants and railway sidings, which result in cost efficiencies.

Healthy scale of operation coupled healthy profitability margin

The revenue of the company witnessed a 39.80 per cent growth in FY2022 (Prov.), its revenue increased to Rs.1404.61 crore in FY2022 (Prov.) as compared to Rs.1004.73 crore in the previous year. This growth of the revenue is majorly due to increase in average realization per unit during FY2022 backed by steady demand for sponge iron, billet, rolled product and ferro alloys in the domestic market.

The operating profitability margin of the company has improved to 13.64 per cent in FY2022 (Prov.) as compared to 12.57 per cent in the previous year. This improvement in profitability margin is on account of overall decrease in overhead expenses, despite of increase in raw material price. Going forward, Acuité believes, that the profitability margin of the company will be sustained at healthy levels over the medium term backed by steady demand and stable realization from the iron and steel market.

The net profitability margin of the company stood healthy at 10.47 per cent in FY2022 (Prov.) as compared to 11.96 per cent in the previous year.

Robust financial risk profile

The financial risk profile of the company is marked by strong net worth, very low gearing and

strong debt protection metrics. The net worth of the company stood healthy at Rs.909.24 crore in FY 2022 (Prov.) as compared to Rs 760.81 crore in FY2021. This improvement in networth is mainly due to the retention of profit. The total networth of company includes RS.159.96 crore of Compulsory Cumulative Convertible Preference Shares (CCCCPS) termed as quasi equity in FY2022 (Prov.).The gearing of the company stood at 0.09 times as on March 31, 2022 (Prov.) when compared to 0.18 times as on March 31, 2021. This further improvement in gearing is mainly on account of improvement in networth and repayment of long term debt coupled with lower utilization of working capital facility during FY2022 (Prov.). Interest coverage ratio (ICR) and stood at 15.36 times in FY2022 (Prov.) as against 5.22 times in FY2021. The debt service coverage ratio (DSCR) of the company stood at 3.79 times in FY2022 (Prov.) as compared to 2.72 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 2.08 times in FY2022 (Prov.) as compared to 1.10 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain robust on account of steady net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Moderate working capital management

The working capital management of the company is marked by moderate gross current asset (GCA) days of 108 days in FY2022 (Prov.) as compared to 121 days in FY2020. The debtor days of the company stood comfortable at 08 days in FY2022 (Prov.) as compared to 20 days in the previous year. The inventory holding period of the company stood moderate at 69 days in FY2022 (Prov.) as compared to 78 days in the previous year. The overall GCA days of the company is emanates from the other current assets of Rs.154.22 crore in FY2022 (Prov.), which mainly consists of advance for supply of goods and statutory deposits. Moreover, the company has utilized ~55 per cent of its working capital facility for the last six months ended April 2022. Acuité believes that the working capital of the company would be maintained at comfortable levels over the medium term backed by the efficient debtor's management policy of the promoters.

Intense competition and inherent cyclicity 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 cyclicity in these sectors.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Strong

The company has strong liquidity position marked by healthy net cash accruals of Rs.179.74 crore as against Rs.38.18 term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 189.64 crore to Rs. 219.38 crore during 2023-24 as against of Rs.22.64 crore long term debt obligations during FY2023. The current ratio of the company stood healthy at 2.65 times in FY2022 (Prov.). The gross current asset (GCA) days of the company stood moderate at 108 days in FY2022 (Prov.). The bank limit of the company has been ~55 percent utilized during the last six months ended in April 2022. Acuité believes that the liquidity of the company is likely to remain strong over the

medium term on account of healthy cash accruals against the long debt repayments over the medium term.

Outlook- Positive

Acuité believes that SKS has consistently improved the business risk profile of the company as reflected from its substantial increase in scale of operations and maintenance in profitability parameters. Moreover, the company has been able to maintain its robust financial risk profile apart from its moderate working capital management. The rating may be upgraded if the company sustains the growth momentum while maintaining the operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics or deterioration in financial risk profile.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1404.61	1004.73
PAT	Rs. Cr.	147.03	120.13
PAT Margin	(%)	10.47	11.96
Total Debt/Tangible Net Worth	Times	0.09	0.18
PBDIT/Interest	Times	15.36	5.22

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Oct 2021	Proposed Bank Facility	Long Term	5.00	ACUITE BBB+ Stable (Assigned)
	Working Capital Demand Loan	Long Term	31.67	ACUITE BBB+ Stable (Upgraded from ACUITE BBB-)
	Term Loan	Long Term	47.90	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	81.82	ACUITE BBB+ Stable (Upgraded from ACUITE BBB-)
	Bank Guarantee	Short Term	23.00	ACUITE A2 (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	72.93	ACUITE A2 (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	15.74	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	81.82	ACUITE BBB- Stable (Upgraded from ACUITE BB- Stable)

06 Apr 2021	Letter of Credit	Short Term	13.77	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	18.25	ACUITE BBB- (Withdrawn)
	Working Capital Demand Loan	Long Term	31.67	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	47.90	ACUITE BBB- Stable (Upgraded from ACUITE BB- Stable)
	Letter of Credit	Short Term	10.68	ACUITE A3 (Withdrawn)
	Bank Guarantee	Short Term	23.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	13.28	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	9.41	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	13.40	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	9.41	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	72.93	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	13.28	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	30.60	ACUITE BB- (Withdrawn)
	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	78.59	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.41	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	18.25	ACUITE BB- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.74	ACUITE A4+ (Reaffirmed)
		Short		
05 Mar 2020	Letter of Credit	Term	13.77	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BB- (Withdrawn)
	Term Loan	Long Term	6.21	ACUITE BB- (Withdrawn)
	Term Loan	Long Term	4.30	ACUITE BB- (Withdrawn)
	Cash Credit	Long Term	9.41	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	29.51	ACUITE A4+ (Withdrawn)
	Letter of Credit	Short Term	13.40	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	10.68	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	31.17	ACUITE BB- (Withdrawn)
	Cash Credit	Long Term	81.82	ACUITE BB- Stable (Reaffirmed)

	Term Loan	Long Term	10.97	ACUITE BB- (Withdrawn)
	Term Loan	Long Term	6.77	ACUITE BB- (Withdrawn)
	Letter of Credit	Short Term	72.93	ACUITE A4+ (Reaffirmed)
03 Jun 2019	Cash Credit	Long Term	18.25	ACUITE BB- Stable (Upgraded from ACUITE D)
	Cash Credit	Long Term	81.82	ACUITE BB- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	129.99	ACUITE BB- Stable (Upgraded from ACUITE D)
	Letter of Credit	Short Term	13.40	ACUITE A4+ (Upgraded from ACUITE D)
	Term Loan	Long Term	3.50	ACUITE BB- Stable (Upgraded from ACUITE D)
	Letter of Credit	Short Term	72.93	ACUITE A4+ (Upgraded from ACUITE D)
	Term Loan	Long Term	6.77	ACUITE BB- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	10.97	ACUITE BB- Stable (Upgraded from ACUITE D)
	Proposed Bank Facility	Short Term	29.91	ACUITE A4+ (Upgraded from ACUITE D)
	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Upgraded from ACUITE D)
	Letter of Credit	Short Term	10.68	ACUITE A4+ (Upgraded from ACUITE D)
	Term Loan	Long Term	6.21	ACUITE BB- Stable (Upgraded from ACUITE D)
	Proposed Long Term Loan	Long Term	31.17	ACUITE BB- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	4.30	ACUITE BB- Stable (Upgraded from ACUITE D)
	Cash Credit	Long Term	9.41	ACUITE BB- Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	30.60	ACUITE BB- Stable (Upgraded from ACUITE D)
03 Jan 2019	Proposed Long Term Loan	Long Term	14.61	ACUITE D (Issuer not co-operating*)
	Letter of Credit	Short Term	159.83	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	14.97	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	14.98	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	17.41	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	11.72	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	49.83	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	152.27	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	9.36	ACUITE D (Issuer not co-operating*)

	Term Loan	Long Term	4.78	ACUITE D (Issuer not co-operating*)
	Bank Guarantee	Short Term	23.00	ACUITE D (Issuer not co-operating*)
	Cash Credit	Long Term	208.45	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	9.25	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	5.89	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	17.49	ACUITE D (Issuer not co-operating*)
	Term Loan	Long Term	14.08	ACUITE D (Issuer not co-operating*)
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 Loan	Long Term	14.61	ACUITE D (Assigned)
25 Jul 2016	Term Loan	Long Term	18.00	ACUITE C (Withdrawn)
	Term Loan	Long Term	337.14	ACUITE D (Downgraded from ACUITE C)
	Cash Credit	Long Term	207.95	ACUITE D (Downgraded from ACUITE C)
	Letter of Credit	Short Term	159.83	ACUITE D (Downgraded from ACUITE A4)
	Bank Guarantee	Short Term	23.00	ACUITE D (Assigned)
15 Apr 2015	Term Loan	Long Term	621.08	ACUITE C (Assigned)
	Cash Credit	Long Term	257.95	ACUITE C (Assigned)
	Letter of Credit	Short Term	144.32	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	81.82	ACUITE BBB+ Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	72.93	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	36.67	ACUITE BBB+ Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	31.67	ACUITE BBB+ Reaffirmed & Withdrawn

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About Acuité Ratings & Research

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