

Press Release

SKS Ispat and Power Limited

November 28, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	118.49	ACUITE BBB+ Positive Reaffirmed	-
Bank Loan Ratings	95.93	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	214.42	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 and Power Limited. The outlook is '**Positive**'.

Rationale for the rating

The rating is driven by strong business risk profile of the company marked by improving scale of operations while maintaining their profitability margin at a healthy level during FY2022 and in 6MFY2023 (prov) respectively. The rating also factors in its experienced management, efficient collection mechanism and the robust financial risk profile of the company characterized by strong debt coverage indicators during FY2022 as well as in 6MFY2022. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

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 an 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 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

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

Key Rating Drivers

Strengths

Experienced management and integrated nature of operation

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.

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.

Improving scale of operation coupled with healthy profitability margin

The revenue of the company witnessed a 40.12 per cent growth in FY2022, its revenue increased to Rs.1407.80 crore in FY2022 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. There has been moderation in steel and ferro alloy prices since Q2FY2023 which may lead to an overall muted sales growth of the company in FY2023. The company has booked around Rs.720 of sales crore till 30th September 2022 (Prov.).

The operating profitability margin of the company has improved to 13.42 per cent in FY2022 as compared to 12.57 per cent in the previous year. This improvement in profitability margin is on account of overall decrease in certain overhead expenses, despite of increase in raw material price. The profit margins of the company have been at around same levels in 6MFY2023 as compared to the previous year. 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. The net profitability margin of the company stood healthy at 6.67 per cent in FY2022 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.854.47 crore in FY 2022 as compared to Rs 760.21 crore in FY2021. This improvement in network is mainly due to the retention of current year profit. The total network of company includes Rs.159.96 crore of Compulsory Cumulative Convertible Preference Shares (CCCPs) termed as quasi equity in FY2022. The CCPS has subsequently got converted into equity in the current year in Aug'22. The gearing of the company stood at 0.10 times as on March 31, 2022 when compared to 0.18 times as on March 31, 2021. This further improvement in gearing is mainly on account of improvement in network and repayment of long term debt coupled with lower utilization of working capital facility during FY2022. Interest coverage ratio (ICR) is strong and stood at 15.28 times in FY2022 as against 5.22 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood strong at 2.73 times in FY2022 as compared to 2.72 times in the previous year. The net cash accruals to total debt (NCA/TD) stood strong at 1.44 times in FY2022 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

Intense competition and inherent cyclicity in the steel industry

The company is operating in competitive and fragmented nature of industry due to the presence of many unorganized players on account of low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors.

Thus, the profit margins and sales of the company remains exposed to inherent cyclicality 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.126.58 crore as against Rs.38.18 term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 152.61 crore to Rs. 169.37 crore during 2023-24 as against of Rs.30.56 crore long term debt obligations during FY2023. The current ratio of the company stood strong at 2.38 times in FY2022. The Gross Current Asset (GCA) days of the company stood comfortable at 107 days in FY2022. The bank limit of the company has been ~35 percent utilized during the last six months ended in October 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1407.80	1004.73
PAT	Rs. Cr.	93.86	120.13
PAT Margin	(%)	6.67	11.96
Total Debt/Tangible Net Worth	Times	0.10	0.18
PBDIT/Interest	Times	15.28	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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jun 2022	Bank Guarantee	Short Term	23.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	81.82	ACUITE BBB+ Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	36.67	ACUITE BBB+ Positive (Reaffirmed)
	Letter of Credit	Short Term	72.93	ACUITE A2 (Reaffirmed)
	Working Capital Demand Loan	Long Term	31.67	ACUITE BBB+ (Withdrawn)
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)
06 Apr 2021	Letter of Credit	Short Term	15.74	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	81.82	ACUITE BBB- Stable (Upgraded from ACUITE BB- Stable)
	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)
		Short		
05 Mar 2020	Bank Guarantee	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)
	Letter of Credit	Short 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)
	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)

03 Jun 2019	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)
03 Jan 2019	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)
	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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	81.82	ACUITE BBB+ Positive Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	72.93	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	36.67	ACUITE BBB+ Positive Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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