

**Press Release**
**Prakash Ferrous Industries Private Limited**

October 04, 2017

**Rating Assigned**


<b>Total Bank Facilities Rated*</b>	Rs. 110.00 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3

*\* Refer Annexure for details*
**Rating Rationale**

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 110.00 crore bank facilities of Prakash Ferrous Industries Private Limited. The outlook is '**Stable**'.

Prakash Ferrous Industries Private Limited (PFIPL), part of the Prakash Group of Industries was established in 1960. The company, promoted by Mr Garg, Mr Agarwal and their respective families was incorporated in 2007 and commenced operations in 2012 to manufacture Thermo Mechanical Treatment (TMT) bars at Srikalahasti, Andhra Pradesh. The company also manufactures engines, generators, pump sets and trades in steel scrap. PFIPL caters to retail clients (85 percent of the total sales in FY2017) and institutional buyers (15 percent) and has over 300 dealers spread across Andhra Pradesh, Tamil Nadu and Karnataka. The products are sold under the 'Tirumala' brand name.

**Key Rating Drivers**
**Strengths**
**• Experienced management**

The company was promoted by Mr Garg, Mr Agarwal and family who possess extensive experience in the industry. The business is also joined by the second generation of professionals from the family. The company has long term relations with customers and suppliers.

**• Stable business risk profile**

PFIPL registered revenue of Rs.335.32 crore in FY2016-17 as against Rs.305.24 crore in FY2015-16. Further, the company registered revenue of Rs.165.00 crore from April - August 2017. The installed capacity stands at 3 lakh metric tonne (MT) per annum for TMT bars and 1.20 lakh MT for billets. The capacity utilisation stands at 60 percent and 34 percent respectively.

**• Improvement in operating margins**

The operating margins improved to 8.15 percent in FY2016-17 from 5.49 percent in FY2015-16 on account of decline in raw material prices and the setting up of in-house manufacturing facility (billets) in FY2017.

**• Healthy financial risk profile**

PFIPL has a healthy financial risk profile marked by net worth of Rs.80.19 crore as on 31 March, 2017 compared to Rs.68.24 crore as on 31 March, 2016. The net worth includes unsecured loans from promoters treated as quasi equity. The gearing improved to 1.17 times as on 31 March, 2017 from 1.58 times as on 31 March, 2016. The total debt comprises term loan of Rs.53.22 crore and working capital funds of Rs.40.34 crore as on 31 March, 2017. PFIPL has a repayment obligation of Rs.14.02 crore in FY2018. The company needs to generate adequate cash flows to repay its debt. The interest coverage ratio (ICR) stood at 1.90 times and DSCR at 1.20 times in FY2017. SMERA believes that

PFIPL will maintain a stable financial risk profile on the back of improvement in net cash accruals. Any further capex will hinder the financial risk profile unless supported by infusion of unsecured loans from promoters.

### Weaknesses

- **Highly competitive industry**

PFIPL operates in a highly competitive steel products industry with much pressure on capacity utilisation and pricing power. The steel industry is cyclical in nature and so are end user industries like real estate and construction. Besides, PFIPL faces competition from other reputed brands in Andhra Pradesh, Tamil Nadu and Karnataka.

- **Volatility in raw material prices**

The operating margins are susceptible to volatility in raw material prices (sponge steel). A decline in raw material prices in the past two years resulted in improved operating margins. Significant changes in prices due to import pressure or supply may also impact margins and the financial risk profile.

### Analytical Approach

SMERA has considered the standalone business and financial risk profile of PFIPL.

### Outlook: Stable

SMERA believes that PFIPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and established brand name. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of high working capital requirements increasing pressure on margins or if the company undertakes capex deteriorating the financial risk profile.

### About the Rated Entity - Key Financials

For FY2016-17, PFIPL reported PAT (profit after tax) of Rs.8.02 crore on operating income of Rs.335.32 crore compared with PAT of Rs.1.81 crore on operating income of Rs.305.24 crore in the previous year. The net worth stood at Rs.80.19 crore as on 31 March, 2017 compared to Rs.68.24 crore in the previous year.

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Name of the	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook
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Facilities	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.73	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.29	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.15	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.79	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.28	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.27	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.29	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.27	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.40	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.60	SMERA A3
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.93	SMERA A3

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## ABOUT SMERA

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