

Press Release

Prakash Ferrous Industries Private Limited

October 26, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 110.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A3**) to the Rs.110.00 crore bank facilities of PRAKASH FERROUS INDUSTRIES PRIVATE LIMITED (PFIPL). The outlook is 'Stable'.

The upgrade in rating reflects sustained growth in revenues backed by stable operating margins and efficient working capital cycle. The revenues of PFIPL have grown at a compound annual growth rate (CAGR) of 16 percent during FY2015-FY2018 while year-over-year revenues at 29 per cent in FY2018 over FY2017. The rating also reflects in stable operating margins at about 8 per cent, and efficient working capital management as reflected in gross current asset (GCA) days of 74 in FY2018. However, the ratings are constrained by high competition and geographical concentration in revenues.

Prakash Ferrous Industries Private Limited (PFIPL) was incorporated in 2007 and commenced operations in 2012. It is engaged in manufacturing Thermo Mechanical Treatment (TMT) bars. PFIPL has over 700 dealers spread across Andhra Pradesh, Tamil Nadu Kerala and Karnataka. Further, the company also directly caters to the institutional buyers. The company's manufacturing facility is located at Srikalahasti, Andhra Pradesh with an installed capacity of 3 lakh metric tonne (MT) per annum for Rolling Mill to manufactures TMT bars. These products are sold under the 'Tirumala' brand.

Key Rating Drivers

Strengths

- Experienced management and revenue growth**

The company was promoted by Mr. Pramod Kumar Garg family and Mr Kalpesh Agarwal family who possess vast extensive experience in the steel industry. PFIPL is promoted jointly by the Agra-based Prakash India group (managed by Garg family) and Chennai-based Meenakshi group (managed by Agarwal family). The day-to-day operations of the company are jointly managed by both this groups. The rich experience of the promoters in the industry has helped the company in increase the dealer network in south region from 300 to 700, and addition of more institutional buyers of construction and real estate sector. The same has reflected in healthy revenue growth over the last three years through FY2018. Revenues of the company grew at a compound annual growth rate of 16 percent from Rs.277.82 crore in FY2015 to Rs.433.24 crore in FY2018. Further, revenue growth is also backed by the capital expenditure in FY2017 in capacity expansion. For six months period ended September 2018, the company reported revenues of Rs.280 crore. Further, operating margins of the company are stable at about 8 percent in FY2018 and FY2017. Acuité believes that, experience of the management in the industry, increase in dealer network across south India is expected to support in improving its business risk profile over the medium term.

- Efficient working capital cycle**

Working capital cycle of the company is efficiently managed with gross current assets at 74 days in FY2018 as against 82 days in FY2017. This is due to healthy debtor policy with customers and efficient inventory management. Debtors stood at 31 days in FY2018 as against 37 days in FY2017. Inventory management is comfortable and stood at 38 days in FY2018 as against 42 days in FY2017. This has

supported in moderate utilization of its working capital limits at about 80 percent for the last six months through September 2018. Acuité believes that working capital cycle of the company is expected to be in similar levels owing to efficient inventory management and healthy receivable policy with diversified debtor network.

- Comfortable financial risk profile**

Financial risk profile of the company is comfortable marked by comfortable gearing (Debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), moderate debt protection metrics and debt service coverage ratio (DSCR). Gearing is comfortable at 1.06 times as on 31 March, 2018 as against 1.37 times as on 31 March, 2017. TOL/TNW is comfortable at 1.56 times as on 31 March, 2018 as against 1.72 times as on 31 March, 2016. Net worth is moderate at Rs.82.63 crore as on 31 March, 2018, as against Rs.73.36 crore in the previous year. Of the total debt of Rs.87.88 crore as on 31 March, 2018, long term debt constitutes Rs.38.93 crore, unsecured loans of Rs.7.95 crore and short term debt of Rs.41.01 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.55 times and 0.16 times respectively in FY2018. PFIPL generated cash accruals of Rs.13.73 crores in FY2018; PFIPL's cash accruals are expected in the range of Rs.21 - Rs.24 crores over the medium term which are adequate to service its debt obligations of about Rs.6.0 - 6.50 crores. Acuité believes that the financial risk profile of the company is expected to improve over the medium term supported by moderate cash accruals and absence of any significant debt-funded capex plans.

Weaknesses

- Highly competitive industry and geographic concentration risk**

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. The company is also exposed to geographical concentration risk as the company generates about 70 percent of revenues from the Andhra Pradesh state, and any sluggish environment in the industrial or real estate activity may impact the business risk profile of the company.

- Susceptibility of margins to fluctuations in steel prices**

The profit margins and sales of the company remains exposed to inherent cyclical in the steel industry and fluctuations in raw material prices.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the PFIPL to arrive at this rating.

Outlook: Stable

ACUITE believes that PFIPL will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management and from its dealers network. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenues while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	433.24	335.32	305.24
EBITDA	Rs. Cr.	34.66	27.33	16.77
PAT	Rs. Cr.	6.38	8.02	1.81
EBITDA Margin (%)	(%)	8.00	8.15	5.49
PAT Margin (%)	(%)	1.47	2.39	0.59
ROCE (%)	(%)	16.07	11.84	8.80
Total Debt/Tangible Net Worth	Times	1.06	1.37	1.80
PBDIT/Interest	Times	2.55	1.90	1.68
Total Debt/PBDIT	Times	2.50	3.65	6.68
Gross Current Assets (Days)	Days	74	82	81

Any other information

Not Applicable

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/view-rating-criteria-20.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
04-Oct-2017	Cash Credit	Long Term	INR 28	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 18	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 4.73	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 7.29	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 3.15	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 4.79	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 7.28	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 7.27	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 7.29	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 7.27	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	INR 5.4	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 3.6	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	INR 5	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	INR 0.93	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB / Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.29	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.79	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.28	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.27	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.29	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.27	ACUITE BBB / Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE A3+ (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE A3+ (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB / Stable (Upgraded)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.93	ACUITE A3+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.88	ACUITE BBB / Stable (Assigned)

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About Acuité Ratings & Research:

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