



SMERA RATINGS LIMITED

SLO Industries Limited

(SLO)

*Rating
Rationale*

April 24, 2015

| Facilities | Amount (Rs. Crore) | Ratings |
|------------------|-----------------------|-----------------------------|
| Term Loan | 4.20 | SMERA BBB/Stable (Assigned) |
| Cash Credit | 130.00 | SMERA BBB/Stable (Assigned) |
| Letter of Credit | 65.00 | SMERA A3+ (Assigned) |
| Bank Guarantee | 6.00 | SMERA A3+ (Assigned) |

SMERA has assigned a long-term rating of **'SMERA BBB' (read as SMERA triple B)** and a short-term rating of **'SMERA A3+' (read as SMERA A three plus)** to the Rs.205.20 crore bank facilities of SLO Industries Limited (SLO). The outlook is **'Stable'**. The ratings draw comfort from the company's experienced management and established relations with customers and suppliers. The ratings are also supported by the company's comfortable operating profit margin and healthy financial risk profile. However, the ratings are constrained by the company's exposure to geographic concentration risk and raw material price volatility. The ratings note that the company is unable to achieve optimal capacity utilisation on account of frequent power outages in Tamil Nadu. The ratings are also constrained by the company's working capital-intensive operations.

SLO, incorporated in 2003, is a Chennai-based company engaged in manufacturing and trading of mild steel billets and structural steel. SLO benefits from its experienced management. Mr. Anil Ojha, director of SLO, has around three decades of experience in the iron and steel industry. The company also benefits from its established relations with customers and suppliers.

SLO has reported comfortable operating profit margin (of 6.1–6.6 per cent) during the past four years. The company registered healthy revenue growth of 19.68 per cent (compound annual growth rate) during FY2010–11 to FY2014–15. SLO has a strong net worth of Rs.132.48 crore as on March 31, 2014 (Rs.101.20 crore as on March 31, 2013). The company's healthy debt protection metrics are reflected in interest coverage ratio of 2.64 times in FY2013-14 and gearing (debt-equity ratio) of 1.54 times as on March 31, 2014. SLO's total debt of Rs.203.45 crore (as on March 31, 2014) mainly comprise short-term loans.

SLO's operations are concentrated in the Chennai region. The company faces intense competition from several players in the iron and steel industry. SLO's profit margins are susceptible to volatility in commodity prices. The company's utilisation of installed production capacity is low at 51.66 per cent in FY2013–14 on account of frequent power outages in Tamil Nadu. However, SLO's earnings are supported by trading income, which accounts for ~50 per cent of the total revenues.

SLO's operations are working capital-intensive. The company's working capital cycle is stretched at 133 days in FY2013–14. SLO's average utilisation of cash credit limit was high at 94.63 per cent during July 2014 to February 2015.

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Outlook: Stable

SMERA believes SLO will maintain a stable business profile over medium term. The company will continue to benefit from its experienced management and established relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving optimal capacity utilisation. The outlook may be revised to 'Negative' in case of deterioration in the company's financial profile, or in case of decline in the company's capacity utilisation level.

About the company

SLO, incorporated in 2003, is a Chennai-based company promoted by Mr. Anil Ojha. SLO is engaged in manufacturing and trading of mild steel billets and structural steel. The company has a manufacturing unit in Ponneri (Tamil Nadu), with installed capacity of 36,000 metric tonnes (MT) for billets and 1,10,000 metric tonnes for structural steel.

For FY2013-14, SLO reported profit after tax (PAT) of Rs.13.28 crore on operating income of Rs.570.20 crore, as compared with PAT of Rs.10.51 crore on operating of Rs.463.86 crore in FY2012-13. The company reported revenues of Rs.738.00 crore (provisional) in FY2014-15. SLO's net worth stood at Rs.132.48 crore as on March 31, 2014, as compared with Rs.101.20 crore a year earlier.

Contact List:

| Media/Business Development | Analytical Contacts | Rating Desk |
|---|--|--|
| Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Email: antony.jose@smera.in Web: www.smera.in | Vinay Chhawchharia Manager – Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in | Tel: +91-22-6714 1184 Email: ratingdesk@smera.in |

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