



SMERA RATINGS LIMITED

Utkal Metallics Limited (UML)

Rating
RationaleJuly 06, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.30	SMERA B+/Stable (Assigned)
Proposed Cash Credit	2.00	SMERA B+/Stable (Assigned)
Proposed Bank Guarantee	0.50	SMERA A4 (Assigned)
Bank Guarantee	0.20	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.10.00 crore bank facilities of Utkal Metallics Limited (UML). The outlook is '**Stable**'. The rating is constrained by the company's modest-scale of operations in an intensely competitive sponge iron industry and net profit largely supported by non-operating income. The rating is also constrained by the company's susceptibility of margins to raw material price fluctuations and low coverage indicators. However, the rating draws comfort from the company's experienced management and moderate gearing.

UML, incorporated in 2003, is a Rourkela-based company engaged in the manufacture of sponge iron. The company has modest-scale of operations with revenues of around Rs.33.93 crore in FY2013-14 (refers to financial year, April 01 to March 31) compared to Rs.40.12 crore in FY2012-13. Further, the company has earned revenues of around Rs.39.72 crore in FY2014-15 (provisional).

The company reported fluctuating operating margins in the range of 2.50 per cent to 6.00 per cent for the period FY2010-11 to FY2013-14 due to volatility in raw material prices. The net profits of Rs.0.05 crore in FY2012-13 and Rs.0.08 crore in FY2013-14 are largely supported by non-operating income of Rs.0.56 crore and Rs.0.42 crore respectively. The company's ability to manage volatile raw material prices in an intensely competitive industry remains the key rating sensitivity.

The adjusted gearing (debt-to-net worth ratio) stood at 0.93 times as on March 31, 2014 (after considering unsecured loans from promoters as neither equity nor debt). However, the interest coverage ratio stood low at 1.31 times in FY2013-14. Further, return on capital employed (ROCE) of the company has declined from 13.90 per cent in FY2010-11 to 6.56 per cent in FY2013-14.

The company is headed by Mr. Manjit Singh Panesar, Director and other directors with around three decades of experience in a similar industry.

Outlook: Stable

SMERA believes that the company will maintain a stable business profile in the medium term. The outlook may be revised to 'Positive' if the company registers strong growth in revenue while achieving sustained improvement in profit margins and financial risk profile. The outlook may be

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revised to 'Negative' in case of steep decline in the company's revenue and profit margins, or in case of deterioration in the company's capital structure.

About the Company

UML was incorporated in 2003 under the directorship of Mr. Manjit Singh Panesar, Mr. Sarabjit Singh Panesar, Mr. Bipin Kumar Gupta, Mr. Ram Kumar Agarwal, Mr. Hardeep Singh and other directors.

The company is engaged in the manufacture of sponge iron at its unit at Kalunga, Rourkela (Odisha). The company has two kilns with capacity of 50 tonnes per day. The annual production capacity is around 24,000 tonnes per annum.

The company reported PAT (profit after tax) of Rs.0.08 crore on operating income of Rs.33.93 crore for FY2013-14, as compared with PAT of Rs.0.05 crore on operating income of Rs.40.12 crore in FY2012-13. The company registered revenues of Rs.39.72 crore (provisional) for FY2014-15. UML's net worth stood at Rs.8.05 crore as on March 31, 2014, as compared with Rs.7.97 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Cell: +91 9820808479 Email: antony.jose@smera.in Web: www.smera.in	Vinay Chhawchharia Associate Vice President – 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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