

### Utkal Metallics Limited: Reaffirmed

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	7.30	SMERA B+/Stable ( Reaffirmed )
Proposed Cash Credit	2.00	SMERA B+/Stable (Reaffirmed)
Bank Guarantee	0.40	SMERA A4 (Reaffirmed)
Proposed Bank Guarantee	0.30	SMERA A4(Reaffirmed)

SMERA has reaffirmed the long term rating of **'SMERA B+' (read as SMERA B plus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the Rs.10.00 crore bank facilities of Utkal Metallics Limited (UML). The outlook is **'Stable'**.

The ratings continue to be constrained by the company's modest-scale of operations in an intensely competitive sponge iron industry. The net profit is largely supported by non-operating income. The rating also factors in the susceptibility of profit margins to fluctuations in raw material prices. However, the ratings draw comfort from the experienced management and moderate gearing.

#### Update

UML, incorporated in 2003, is engaged in the manufacture of sponge iron. The revenues of the company have declined from Rs.39.72 crore in FY2015 to Rs.23.18 crore in FY2016 mainly on account of low realisation and sluggish demand from the steel industry. Further, the company has earned revenues of Rs.13.71 crore (provisional) during April to August, 2016.

The company has fluctuating operating margins during the period under study with steep decline in FY2015 to 0.29 per cent compared to 4.77 per cent in FY2014 on account of high raw material cost. The operating margins improved to 1.97 per cent in FY2016. However, the net profit of Rs.0.23 crore is largely supported by non-operating income of Rs.0.89 crore in FY2016.

The net worth of the company declined to Rs.8.50 crore in FY2015 from Rs.10.33 crore in FY2014 mainly on account of losses. It further declined to Rs.5.65 crore in FY2016 when an advance of Rs.3.10 crore extended to Mahanadi Coalfields Limited was written off. However, the company's gearing continues to stand low at around 0.88 times as on March 31, 2016. The interest coverage ratio stands moderate at around 1.54 times in FY2016.

The GCA increased from 81 days in FY2015 to 113 days in FY2016 mainly on account of increase in inventory from 39 days in FY2015 to 90 days in FY2016.

#### Rating Sensitivity Factors

- Scaling up revenues and profitability
- Managing volatility in raw-material prices
- Efficient working capital management

#### Outlook – Stable

SMERA believes that the company will maintain a stable outlook in the medium term owing to its experienced management. 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. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profit margins or deterioration in the capital structure.

**Criteria applied to arrive at the rating:**

- Manufacturing Entities

**About the Company**

UML was incorporated in 2003 under the directorship of Mr. Manjit Singh Panesar, Mr. Sarabjit Singh Panesar, Mr. Bipin Kumar Gupta and others. The company is engaged in the manufacture of sponge iron at Kalunga, Rourkela (Odisha). It has two kilns with capacity of 50 tonnes per day. The annual production capacity is around 24,000 tonnes per annum.

For FY2015-16, UML reported profit after tax (PAT) of Rs.0.21 crore on operating income of Rs.23.18 crore, as compared to net losses of Rs.1.89 crore on operating income of Rs.39.72 crore in FY2014-15.

**Rating History**

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
06 July, 2015	Cash Credit	7.30	SMERA B+ (Assigned)	-	Stable
	Cash Credit (Proposed)	2.00	SMERA B+ (Assigned)	-	Stable
	Bank Guarantee	0.20	-	SMERA A4 (Assigned)	-
	Bank Guarantee (Proposed)	0.50	-	SMERA A4 (Assigned)	-

**Contacts:**

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: <a href="mailto:mohit.jain@smera.in">mohit.jain@smera.in</a>	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: <a href="mailto:suman.m@smera.in">suman.m@smera.in</a>

## ABOUT SMERA

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