

May 02, 2016

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	6.55	SMERA BB+/Stable (Assigned)
Cash Credit	22.00	SMERA BB+/Stable (Assigned)
Letter of Credit	7.00	SMERA A4+ (Assigned)
Bank Guarantee	3.45	SMERA A4+ (Assigned)

SMERA has assigned rating of '**SMERA BB+** (read as SMERA double B plus) to the Rs.28.55 crore long term bank facilities and '**SMERA A4+** (read as SMERA A four plus) to the Rs.10.45 crore short term bank facilities of Saluja Steel and Power Private Limited (SSPPL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management, integrated operations and above-average financial risk profile marked by low gearing, healthy net worth base and moderate coverage indicators. The ratings are also supported by the healthy net cash accruals as against its term loan obligation. However, the ratings are constrained by the moderate scale of operations, working capital intensive business and volatility in commodity prices followed by intense market competition.

SSPPL, a Jharkhand-based company, incorporated in 2004 was promoted by Mr. Amarjeet Singh Saluja, Mr. Taranjeet Singh Saluja and Mr. Satvinder Singh Saluja. The management has around four decades of experience in the steel industry. The company has integrated operations from manufacturing of sponge iron to thermo mechanically treated (TMT) bars. The installed capacity stands at 60,000 metric tons per annum (MTPA), 19,000 MTPA and 60,000 MTPA for manufacturing of sponge iron, mild steel ingots and TMT bars respectively.

The financial risk profile has been above average marked by low gearing and comfortable coverage indicators. The gearing (debt to equity) of the company stood at 0.76 times as on March 31, 2015 and 0.68 times as on March 31, 2016 (as per provisional's). The interest coverage stood at 2.43 times and debt service coverage ratio at 1.57 times in FY2014-15. The company has healthy net cash accruals of Rs.5.75 crore with net cash accruals to total debt of 0.20 times FY2014-15.

SSPPL has moderate scale of operations with operating income of Rs.106.99 crore in FY2014-15. The company has achieved operating income of Rs.122.08 crore in FY2015-16 (provisional), registering a growth of around 14 per cent over the previous year due to increase in volume sales. The working capital intensive operations are reflected in the working cycle of 114 days due to high inventory holding days of 118 in FY2014-15. The company has high gross current asset days of 216 in FY2014-15. In FY2016, as per estimates, the working capital cycle has improved to 108 days due to liberal credit terms from suppliers. The average bank limit utilisation has been ~89 per cent in the last six months ended March 2016.

Rating Sensitivity Factors

- Improvement in revenues and profitability
- Deterioration in the capital structure
- Efficient working capital management
- Improvement in sales realisation

Outlook: Stable

SMERA believes SSPPL will maintain a 'Stable' business profile over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company registers more 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.

About the Company

SSPPL, a Jharkhand based company incorporated in 2004 was promoted by Mr. Amarjeet Singh Saluja, Mr. Taranjeet Singh Saluja and Mr. Satvinder Singh Saluja. The company is engaged in the manufacture of sponge iron, mild steel (MS) ingots and thermo-mechanically treated (TMT) bars.

For FY2014-15, SSPPL reported profit after tax (PAT) of Rs.0.50 crore on operating income of Rs.106.99 crore as against PAT of Rs.0.95 crore on operating income of Rs.53.96 crore in FY2013-14. The tangible net worth stood at Rs.37.86 crore in FY2014-15 as against Rs.37.36 crore in FY2013-14. For FY2015-16 (provisional), SSPPL reported PAT of Rs.0.98 crore on operating income of Rs.122.08 crore.

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