

Padmavati Steels Limited: Assigned

Name of the Instrument	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	10.00	SMERA B-/Stable (Assigned)

SMERA has assigned rating of '**SMERA B-**' (**read as SMERA B minus**) to the Rs.10.00 crore bank facilities of Padmavati Steels Limited (PSL). The outlook is '**Stable**'.

The rating is constrained by the decline in revenue and stretched liquidity position. The rating also factors in the exposure to volatility in raw material prices in a highly fragmented and competitive steel industry. However, the rating draws comfort from the established track record of operations, experienced management and comfortable financial risk profile.

The Punjab-based PSL is engaged in the manufacture of mild steel bars, electric resistance welded and MS galvanised pipes. The company reported operating income of Rs.24.88 crore (provisional) for FY2015-16 (refers to financial year, April 01 to March 31) as against Rs.106.86 crore in the previous year, thereby registering a significant decline of 76.72 per cent. This is on account of change in the revenue mix wherein 70% of the revenue in FY 2015 was generated from its trading activity which has reduced to nil in FY 2015-16. The company's cash credit limit is almost fully utilized from October, 2015 to March, 2016. The company is exposed to susceptibility of profit margin due to volatility in raw material prices and intense competition from several organised and unorganised players in this steel industry.

PSL was incorporated in 1999 and benefits from its experienced management. Mr. Kailash Chand Bansal, Director has around four decades of experience in the industry. PSL's financial risk profile is marked by comfortable interest coverage ratio (ICR) of 2.07 times, debt service coverage ratio (DSCR) of 1.67 times and low gearing (debt to equity) of 0.47 times as on March 31, 2015.

Rating Sensitivity Factors

- Scaling up operations
- Improvement in profitability and liquidity position
- Efficient working capital management

Outlook-Stable

SMERA believes that PSL will continue to benefit over the medium term from its established presence in this industry. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while improving margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

PSL, incorporated in 1999, is a Punjab-based company engaged in the manufacture of mild steel bars, electric resistance welded and MS galvanised pipes. The company was promoted by Mrs. Sushma Rani, Mr. Sushil Kumar Singla, Mr. Kailash Chand Bansal, and Mrs. Sunita Garg. The production capacity of the company is 93,600 metric tonnes (MT) per annum.

For FY2014-15, PSL registered profit after tax (PAT) of Rs.0.28 crore on operating income of Rs.106.86 crore, as compared with PAT of Rs.0.46 crore on operating of Rs.78.73 crore in FY2013-14.

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ABOUT SMERA

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