

February 12, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	4.90	SMERA B+/Stable (Assigned)
Cash Credit	2.00	SMERA B+/Stable (Assigned)
Letter of Credit	1.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (**read as SMERA single B plus**) and '**SMERA A4**' (**read as SMERA A four**) to the Rs.7.90 crore bank facilities of Surya Metalloys Private Limited (SMPL). The outlook is '**Stable**'. The ratings are constrained by the company's short track record of operations, low profitability, high level of customer concentration and average debt protection metrics. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices. However, the ratings are supported by the company's experienced management.

SMPL, incorporated in 2011, is a Delhi-based company engaged in manufacturing of mild steel (MS) ingots. SMPL commenced commercial operations in April 2013. The company reported PAT of Rs.0.12 crore on net sales of Rs.10.88 crore during April 2013 to September 2013. SMPL is exposed to high customer concentration risk as the company derives ~90 per cent of its total revenues from its top-five customers. SMPL has average debt protection metrics. The company's tangible net worth is low at Rs.2.07 crore (provisional) as on September 30, 2013. SMPL's leverage is high at 4.11 times (provisional) as on September 30, 2013. The company's total debt (of Rs.8.50 crore as on September 30, 2013) includes unsecured loans of Rs.3.35 crore from promoters and relatives. However, retention of the unsecured loans in the business is the key rating sensitivity. SMPL's interest coverage ratio is low at 1.78 times in H1FY2013-14 (refers to period, April 01 to September 30). The company operates in an intensely competitive and fragmented steel industry. Moreover, SMPL's profitability is highly susceptible to volatility in raw material (metal scrap and sponge iron) prices. The company is poised to benefit from its experienced management. Mr. Ashish Agarwal and Mr. Abhay Agarwal, directors of SMPL, have over ten years of experience in the iron and steel industry.

Outlook: Stable

SMERA believes the outlook on SMPL's rated facilities will remain stable over the medium term on the back of the company's experienced management. The outlook may be revised to 'Positive' in case the company generates larger-than-expected cash flows with increase in scale of operations. The outlook may be revised to 'Negative' in case of deterioration in the company's financial profile.

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About the company

SMPL, incorporated in November 2011, is a Delhi-based company promoted by Mr. Ashish Agarwal and Mr. Abhay Agarwal. SMPL commenced commercial operations in April 2013. The company is engaged in manufacturing of mild steel (MS) ingots. SMPL has a manufacturing unit in Ajmer (Rajasthan), with an installed capacity of 20,790 metric tonnes per annum (MTPA).

SMPL reported PAT of Rs.0.12 crore on net sales of Rs.10.88 crore during April 2013 to September 2013. The company's net worth stood at Rs.2.07 crore (provisional) as on September 30, 2013.

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