

**November 06, 2014**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	0.50	SMERA B/ Stable (Assigned)
Cash Credit (Proposed)	4.50	SMERA B/ Stable (Assigned)

SMERA has assigned a rating of '**SMERA B' (read as SMERA single B)** to the abovementioned bank facilities of Steel World Company (SWC). The outlook is '**Stable**'. For arriving at the rating, SMERA has consolidated the business and financial risk profiles of SWC and Steel India Company. The consolidation is in view of the similar business model and common management of the entities. The rating is constrained by SWC's moderate-scale operations, working capital-intensive business and stretched liquidity position in an intensely competitive segment of the iron and steel industry. The rating is also constrained the susceptibility of the firm's profit margins to volatility in metal scrap prices. The rating factors in risks related to the partnership constitution of the firm. However, the rating derives comfort from the firm's experienced management, low gearing (debt-to-capital ratio) and strong coverage indicators.

SWC, established in 2010, is a Pune-based partnership firm engaged in trading of metal scrap. SWC has moderate-scale operations reflected in total income of Rs.59.74 crore in FY2013-14 (refers to financial year, April 01 to March 31). The firm's operations are working capital-intensive, as evidenced by high gross current assets (GCA) of 201 days in FY2013-14. SWC's stretched liquidity position is reflected in high average utilisation (~98 per cent) of working capital limit during the last six months. The firm operates in an intensely competitive segment of the iron and steel industry. SWC's profit margins are exposed to volatility in metal scrap prices. The firm's financial risk profile is susceptible to withdrawal of capital, which is an inherent risk in partnership entities.

SWC benefits from its experienced management. Mr. Mohammad Nayeem Choudhary, partner of SWC, has around three decades of experience in the metal scrap trading business. SWC's gearing (debt-to-capital ratio) is low at 0.36 times as on March 31, 2014. The firm's interest coverage ratio is strong at 4.92 times in FY2013-14.

### **Outlook: Stable**

SMERA believes SWC will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers substantial growth in scale of operations while achieving healthy profitability and comfortable liquidity position. The outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile.

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### About the firm

SWC, established in 2010, is a Pune-based partnership firm owned by Mr. Mohammad Nayeem Choudhary and Mr. Abdul Wahid Choudhary. SWC is engaged in trading of metal scrap.

For FY2013–14, SWC reported profit before tax of Rs.0.67 crore on a total income of Rs.59.74 crore, as compared with profit before tax of Rs.0.27 crore on a total income of Rs.25.50 crore in FY2012–13. The firm's capital stood at Rs.1.41 crore as on March 31, 2014, as compared with Rs.1.01 crore a year earlier.

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