

November 06, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	3.50	SMERA B/ Stable (Assigned)
Cash Credit (proposed)	1.50	SMERA B/ Stable (Assigned)

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

SIC, established in 2006, is a Pune-based proprietorship firm engaged in trading of metal scrap. SIC has an operating scale reflected in total income of Rs.31.67 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 408 days in FY2013-14. SIC's stretched liquidity position is evidenced by 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. SIC'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 proprietorship entities.

SIC benefits from its experienced management. Mr. Mohammad Nayeem Choudhary, proprietor of SIC, has around three decades of experience in the scrap trading business. SIC's gearing (debt-to-capital ratio) is low at 0.23 times as of March 31, 2014. The firm's interest coverage ratio is moderate at 1.63 times in FY2013-14.

### **Outlook: Stable**

SMERA believes SIC 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 profit margins 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**

SIC, established in 2006, is a Pune-based firm promoted by Mr. Mohammad Nayeem Choudhary. SIC was established to take over the running business of Bombay Steel (established in 1983), which was engaged in trading of iron and steel scrap. SIC is engaged in trading of metal scrap.

For FY2013–14, SIC reported profit before tax of Rs.0.13 crore on a total income of Rs.31.67 crore, as compared with profit before tax of Rs.0.56 crore on a total income of Rs.47.67 crore in FY2012–13. The firm's capital stood at Rs.18.10 crore as on March 31, 2014, as compared with Rs.20.37 crore a year earlier.

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