May 20, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	**4.25***	**SMERA B-/Stable (Assigned)**
Letter of Credit / Buyer's Credit	**4.25***	**SMERA A4 (Assigned)**

**Cash Credit and letter of credit/buyer's credit not to exceed Rs.7.50 crore*

SMERA has assigned a rating of **'SMERA B-' (read as SMERA single B minus)** to the Rs.4.25 crore long-term bank facilities and **'SMERA A4' (read as SMERA A Four)** to the Rs.4.25 crore short-term bank facilities of Singal Udyog (SU). The outlook is **'Stable'**. The ratings are constrained by the firm's small scale of operations, declining revenues, low profit margins, high gearing (debt-to-capital ratio) and weak coverage indicators amidst intense competition prevalent in the ferrous and non-ferrous metals industry. The ratings are also constrained by the susceptibility of the firm's profit margins to foreign exchange fluctuation risk. However, the ratings are supported by the firm's experienced management.

SU, established in 2004, is a Ludhiana-based partnership firm engaged in trading of metal scrap and steel products. SU has small-scale operations reflected in revenues of Rs.84.23 crore in FY2012–13 (refers to financial year, April 01 to March 31), as compared with revenues of Rs.146.85 crore in FY2011–12. Further, the firm registered revenues of Rs.51.00 crore (provisional) in FY2013–14, a decline of ~40 per cent over the previous year's revenues. SU has reported low profit margins during the past three years. The firm's operating profit margin and net profit margin ranged between 0.60–1.00 per cent and 0.05–0.11 per cent respectively during FY2008–09 to FY2012–13.

SU's leverage (debt-to-capital ratio) deteriorated from 2.12 times as on March 31, 2012 to 2.31 times as on March 31, 2013. The firm has weak debt coverage indicators, as reflected in interest coverage ratio of 1.24 times and cash debt service coverage ratio (DSCR) of 1.06 times in FY2012–13. SU's average utilisation of bank limit stands at 90.45 per cent during October 2013 to February 2014. The firm faces intense competition from several players in the unorganized segment of the ferrous and non-ferrous metals industry. SU sources ~80 per cent of its material requirements through imports. The firm is thus exposed to foreign exchange fluctuation risk, which is mitigated by forward contracts on selective transactions.

SU benefits from its experienced management. Mr. Mahesh Gupta, partner of SU, has around two decades of experience in the metals industry. Mr. Prayank Gupta (son of Mr. Mahesh Gupta) manages the marketing function of the firm.

Outlook: Stable

SMERA believes SU will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while achieving sustained improvement in profit margins and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues, profit margins and net cash accruals, or in case of deterioration in the firm's liquidity position and financial risk profile.

About the firm

SU, established in 2004, is a Ludhiana-based partnership firm engaged in trading of ferrous and non-ferrous metal scrap, cold rolled (CR) coils, CR sheets, hot rolled (HR) coils and HR sheets. SU also outsources manufacturing of scaffolding accessories.

For FY2012–13, SU reported profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.84.23 crore, as compared with PAT of Rs.0.13 crore on operating income of Rs.146.85 crore for FY2011–12. The firm's net worth stood at Rs.2.75 crore as on March 31, 2013, as compared with Rs.2.66 crore a year earlier.

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