

May 28, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	3.50	SMERA C (Assigned)
Bank Guarantee	2.50	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA C**' (read as **SMERA C**) and '**SMERA A4**' (read as **SMERA A four**) to the abovementioned bank facilities of Mahaluxmi Steels (MS). The ratings are constrained by the firm's low operating profit margin and weak financial risk profile in an intensely competitive segment of the steel industry. The ratings are also constrained by the decline in the firm's operating income. The ratings factor in the risks associated with the firm's large debt-funded capital expenditure plan. However, the ratings are supported by the firm's experienced management.

MS, established in 2007, is a Ludhiana-based partnership firm engaged in manufacturing of steel ingots. MS reported low operating profit margin of 2.80 per cent in FY2012-13 (refers to financial year, April 01 to March 31). The firm's weak financial risk profile is marked by high overall leverage (total outside liabilities to tangible net worth ratio) of 3.11 times as on March 31, 2013 and low interest coverage ratio of 1.60 times in FY2012-13. MS's net worth is low at Rs.3.72 crore as on March 31, 2013.

MS faces intense competition from several players in the unorganized segment of the steel industry. The firm's operating income declined from Rs.47.92 crore in FY2012-13 to Rs.33.70 crore (provisional) in FY2013-14. MS plans to incur capital expenditure of ~Rs.5.00 crore towards capacity expansion in FY2014-15. The aforementioned capex will be funded through bank borrowings of ~Rs.3.50 crore and partners' capital of ~Rs.1.50 crore. The firm's overall leverage is thus likely to deteriorate in the medium term.

MS benefits from its experienced management. Mr. Sanjay Gupta, partner of MS, has around two decades of experience in the steel industry.

About the firm

MS, established in 2007, is a Ludhiana-based partnership firm promoted by Mr. Sanjay Kumar Gupta and Mr. Mukesh Gupta. MS is engaged in manufacturing of steel ingots.

For FY2012-13, MS reported profit after tax (PAT) of Rs.0.19 crore on operating income of Rs.47.92 crore, as compared with PAT of Rs.0.20 crore on operating income of Rs.39.16 crore for FY2011-12. The firm's net worth stood at Rs.3.72 crore as on March 31, 2013, as compared with Rs.2.84 crore a year earlier.

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SMERA RATINGS LIMITED

Mahaluxmi Steels (MS)

Rating Rationale

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