

May 15, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	5.50	SMERA B-/ Stable/ Assigned
Letter of Credit	1.00	SMERA A4/ Assigned

SMERA has assigned a rating of '**SMERA B-**' (read as **SMERA B minus**) to Rs. 5.50 crores long term facility and '**SMERA A4**' (read as **SMERA A four**) to Rs. 1.00 crores short term facility of Capital Steels. The outlook is 'Stable'. The rating is primarily constrained due to small scale of trading operations in a highly unorganized and fragmented steel wire industry, susceptibility to volatility in raw material prices, low profit margins due to the trading nature of business and weak financial risk profile marked by low net worth base, high gearing, weak coverage indicators and stretched working capital limit utilization. The rating is also constrained by the investment made by Capital Steels in Stage Steels Limited & loans & advances to relatives & group companies. The rating however derives support from the experience of management & diversified client base.

Capital Steels is a small player in a highly competitive steel wire industry. Although Capital Steels has been in business for more than four decades, the growth in revenue has been on a low scale and very recent. It has achieved a turnover of Rs 18.99 crores in FY 2012. Capital Steels has achieved revenue CAGR of ~40.75% during the period FY 2008-12 on account of diversifying the customer base.

Financial profile of Capital Steels is weak marked by low net worth base, high gearing levels, negative cash generation from operating activities, low interest coverage and Debt Service Coverage Ratio. The net worth of Capital Steels has increased from Rs 0.36 crores as on 31/Mar/2010 to Rs 1.89 crores as on 31/Mar/12 due to infusion of capital and retention of profits in the business. However Capital Steels has given loans & advances to the tune of Rs. 0.87 crores to relatives & group companies which has resulted in to diversion of capital employed to non core business activity. Due to higher external borrowings, the total borrowings to net worth ratio stands

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

at 2.37 as on 31/Mar/12. With susceptibility to volatility in raw material prices & limited bargaining power, company operates at low profitability margins, which has lead to low interest coverage ratio standing at 1.10 for FY 2012. Capital Steels has also availed business loans from various banks for working capital purpose which has lead to low DSCR levels in FY 2011 and FY 2012. Further the quality of investment made by Capital Steels in Stag Steels Limited (group/related entity) to the tune of Rs. 0.26 crores remains a concern as Stag Steels Limited is not in operations & no dividend/interest income is generated from the said investment during the period under study. Utilization of working capital limit remained high on account of long working capital cycle mainly due to high collection period.

However, the experience of the management and long standing relationship with existing customers has helped Capital Steels in securing continuous orders from its customers.

Capital Steels has achieved revenue of Rs. 16.75 crores during the period April, 2012 to January, 2013 as against projected revenue of ~ Rs. 22.75 crores for FY 2013.

About Capital Steels

Capital Steels was established in the year 1968 as proprietorship concern by Mr. Tirlochan Singh Gulati. Mr. Gurmeet Singh Gulati, son of Mr. Tirlochan Singh Gulati joined Capital Steels as an employee in 1998. Later in April, 2011, Capital Steels was converted to partnership firm with Mr. Tirlochan Singh Gulati and Mr. Gurmeet Singh Gulati as partners.

Mr. Tirlochan Singh Gulati, founder partner is not active in day to day operations of the firm; however he provides valuable inputs in critical business decisions. Mr. Gurmeet Singh Gulati is mainly looking after the operations of the company.

The firm is engaged in trading of high quality steel wires, G. I. wires & ACSR wires which is mainly sold to traders. Capital Steels is an approved contractor for State Government Electricity Boards.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

Firm majorly purchases from Hulas Wire Industries Limited, H. D. Wires Private Limited and R.K. Steels. Capital Steels has recently started trading of Aluminium wires.

For FY 2012, Capital Steels reported a net profit of Rs. 0.06 crores on a total income of Rs. 18.99 crores as against a net profit of Rs. 0.07 crores on a total income of Rs. 14.80 crores for FY 2011.

Contact List

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP, SME – Sales Tel : +91-22-67141130 Cell : +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Mr. Charu Dutt Sharma, VP – Operations – SME Tel: +91-22-67141130 Cell: +91 9820751853 Email: charu.sharma@smera.in	Tel: +9122-67141128 Email: ratingdesk@smera.in

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.