

June 14, 2010

**CARE REAFFIRMS RATING TO THE ST BANK INSTRUMENTS OF  
ELECTROSTEEL CASTINGS LTD.(FOR ENHANCED MOUNT)**

**Rating Assigned**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Short-term debt (including Commercial Paper)*	450.0 (enhanced from 250.0)	'PR1+' (PR One plus)	Retained

\* by earmarking fund based working capital limit

**Ratings Rationale**

The rating draws strength from the long & satisfactory track record of the company, established experience of the promoters, satisfactory capacity utilisation, operating efficiency arising out of various backward integration initiatives undertaken by the company, satisfactory clientele, significant presence in the export market, improving financial position with high profitability margins and favourable industry scenario for pipes in view of continuous emphasis on water infrastructure development by Government. The rating also factor in volatility in input & finished goods prices, risk associated with implementation of large ongoing projects & higher level of debt being availed to finance the same, substantial equity investment envisaged in the greenfield steel project of Electrosteel Integrated Ltd. (EIL) – an associate company & overall substantial exposure in group/associate companies, high average collection period and slow recovery in the global economy after the severe slowdown. Successful implementation of the ongoing projects in ECL & commencement of operation in the integrated steel project of EIL and sustainability of demand growth & profitability margins in the context of slow economic recovery will remain the key rating sensitivities.

**Company Profile**

ECL, incorporated in November 1955, is under the management of Kejriwal & family of Kolkata. The company is mainly engaged in manufacturing of DI & CI pipes. Over the years, ECL has diversified into execution of DI pipe related EPC projects on a turnkey basis and currently, it is a complete water infrastructure company providing techno-economic, end-to-end solution in drinking water supply & sewerage systems.

Electrosteel group, a leading industrial house of Eastern India, has an aggregate DI pipe production capacity of 4,60,000 tpa (in FY09) and enjoys a market share of around 65% in the domestic DI pipe segment. This coupled with favourable cost dynamics like backward integration, strategic plant location, captive mines and increasing focus on exports have enabled the company to grow at a steady pace even during the worst of times of the industry.

ECL has embarked upon various projects, either to support the existing line of activity of the company or for backward integration.

On total income of Rs.1,927.1 crore, ECL earned a PAT (after defd. tax) of Rs.140.4 crore in FY09. Though, both long-term debt equity and overall gearing ratios as on Mar.31, 2009 deteriorated vis-à-vis Mar.31, 2008, however, the same were comfortable. Interest coverage was also satisfactory at 2.84 during FY09.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications



Press Release

As per the unaudited result for the nine month period ended Dec.31, 2009 (9MFY10), the profitability parameters witnessed a significant improvement over 9MFY09 due to execution of high margin orders vis-à-vis lower raw material cost and benefits accruing from backward integration initiatives. Consequently, PBILDT margin increased significantly to 28.09% in 9MFY10, as against 15.58% in 9MFY09.

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