

July 20, 2010

CARE ASSIGNS 'CARE BB+ (SO)' AND 'PR4 (SO)' RATINGS TO BANK FACILITIES OF RAI STEEL AND ENERGY LTD.

Ratings

Facilities	Amount (Rs. cr)	Ratings ¹	Remarks
Long-term Bank Facilities	10.55	'CARE BB+ (SO)' [Double B Plus (Structured Obligation)]	Assigned
Short-term Bank Facilities	5.70	'PR4 (SO)' [PR Four (Structured Obligation)]	Assigned
Total Facilities	16.25		

Rating Rationale

The ratings are based on the credit enhancement in the form of unconditional and irrevocable Corporate Guarantee given by RKKR Steels Limited (RKKR) to the bank facilities of Rai Steel and Energy Limited (Rai Steel).

The credit profile of RKKR is constrained by commodity nature of company's finished product, low and volatile profit margins, relatively high gearing levels, low capacity utilization level and extension of corporate guarantee to one of its group companies. Above ratings also factor in cyclical nature of steel industry.

RKKR's ratings also factor in the experience of promoters in the steel industry, long standing relationship with customers, established brand 'RKKR' and low capital cost of its plant.

In a scenario of poor power supply situation in the state of Tamil Nadu, ability of RKKR to improve the capacity utilization level is a key rating sensitivity. This assumes more significance with the company expanding its existing production capacity.

Company Profile

Rai Steel, part of RKKR group is engaged in production of MS ingots, having a production facility at Gummidipoondi, near Chennai with an installed capacity of 36,000 Tonnes Per Annum (TPA). The company has started its commercial production in the month of May'09. During 9mFY10 (Unaudited), Rai Steel posted a PAT of Rs.0.10 cr on a total operating income of about Rs.32 cr.

¹Complete definition of the ratings assigned are available at www.careratings.com

About Guarantor

RKKR is engaged in production of TMT bars. The company has installed production capacity of 48,000 TPA.

During FY09, RKKR registered a PAT of Rs.0.46 cr on a total operating income of Rs.155 cr. During 11mFY10 (provisional), RKKR posted a PBT of Rs.0.34cr on a total operating income of Rs.105 cr.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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