July 20, 2010

CARE ASSIGNS 'CARE BBB-' AND 'PR3' RATINGS TO THE BANK FACILITIES OF RASHMI METALIKS LTD.

Ratings

Facilities/instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long term bank facility	205.9	**'CARE BBB-' (Triple B minus)**	Assigned
Short term bank facility	180.0	**'PR3' (PR three)**	Assigned
	385.9		

Rating Rationale

The aforesaid ratings draw strength from the experience of promoters, strategic location of the plant, comfortable leverage ratios due to continuous equity infusion by the promoters over the last three years, backward and forward integration initiatives undertaken by the company and improving outlook of the domestic steel industry. The ratings are however, constrained by short track record of the company in manufacturing operation, risk of volatility in raw material & finished goods prices, regulatory risk associated with the export of iron-ore fines – the major contributor to revenue, risk associated with implementation of the large size expansion project & non-achievement of financial closure, moderate profitability and stiff competition. Future trend in sales price realisation vis-à-vis demand for RML's products as well as price trend of key raw materials and ability of the company to complete the ongoing projects in time & stabilise its manufacturing operation will remain the key rating sensitivities.

Company Profile

Rashmi Metaliks Limited (RML), promoted by Shri Sajjan Kumar Patwari of West Bengal in 2004, started operation with a mini blast furnace (MBF) for manufacturing pig iron, in June 2007. It commenced commercial production in its sinter plant in April 2009 and in its SMS unit (manufacturing billets and ingots) in December 2009.

The company has been implementing an expansion project in and around its existing plant location in Gokulpur, West Bengal at a total cost of Rs.490.8 crore, to be completed in phases by September 2012. The project is being financed at a debt-equity ratio of 1.57:1 and financial closure is yet to be achieved. The facilities envisaged included a steel melting shop (SMS), DI pipe plant, sponge iron plant, rolling mill and two captive power plants.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

FY08 was the first accounting period of operation (comprising ten months) for RML. Prior to that, the company had nominal income from its railway sidings. RML earned PBILDT of Rs.65.1 crore (Rs.55.6 crore in FY08) and PAT (after defd. tax) of Rs.23.1 crore (Rs.28.3 crore in FY08) on net sales of Rs.651.7 crore (Rs.393.8 crore in FY08) in FY09. GCA at Rs.30.5 crore was comfortable vis-à-vis debt repayment in FY09.

Both long-term debt equity and overall gearing ratios improved and were comfortable as on Mar.31, 2009, despite higher debt availed to part finance the expansion programme and meet incremental working capital requirement, due to continuous equity infusion by the promoters. Interest coverage, though declined in FY09, was comfortable during the last three years. Current ratio was adequate as on the last three account closing dates.

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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.

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