

July 8, 2010

**CARE REAFFIRMS RATINGS TO THE BANK FACILITIES OF
SBQ STEELS LTD**

CARE has retained the '**CARE BB+**' (**Double B Plus**) rating assigned to the Long-term Bank Facilities of SBQ Steels Limited (SBQ) for an enhanced amount of Rs.602cr. Facilities with this rating are considered to offer inadequate safety for timely servicing of debt obligations. Such facilities carry high credit risk. CARE has also assigned '**PR 4**' [**PR Four**] rating to the Rs.41.70 cr Short-term Bank Facilities of SBQ. Facilities with this rating would have inadequate capacity for timely payment of short-term debt obligations and carry very high credit risk. Such facilities are susceptible to default. CARE assigns + or - sign to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by rating symbol.

Instrument	Amount (Rs. crore)	Rating
Long-term Bank Facilities	602.00*	' CARE BB+ '
Short-term Bank Facilities	41.70	' PR 4 '
Total	643.70	

* - enhanced from Rs.253 cr

Rating Rationale

The ratings are constrained by project implementation risk, delay in implementation of Phase I and Phase II facilities, moderately high project gearing, high bargaining power of raw material suppliers and cyclical nature of the steel industry. Also, lack of track record in execution of large-scale projects by promoters elevates the project risk further. The ratings, however, factor in commencement of commercial production of pig iron and metallurgical coke, promoter's five decades of experience in the steel trading industry, low input cost on account of sintering and captive coke manufacturing facility and the likely benefits to be achieved from flexibility in production on account of the integrated nature of the steel mill.

Timely infusion of fresh equity capital for Phase III and completion of Phases II and III of the project without time and cost overrun are the key rating sensitivities. In the short-run, achieving sales volume at peak-utilisation level remain key challenging factor given the smaller size of current operations of the RKKR group in relation to the operations of SBQ.

Company Profile

SBQ Steels Ltd was established in the year 2007 by Chennai-based RKKR group. SBQ is currently setting up an integrated steel mill with production capacity of 2.5 lakh TPA at Ankulapature, Nellore District of AP. The project is being set up in three phases. Mini Blast Furnace (MBF) of Phase I and Coke Oven Plant of Phase II have already commenced commercial production. Presently, SBQ is manufacturing pig iron and metallurgical coke and sells both steel grade and foundry grade pig iron. During the four months period from Sep '09 to Dec '09, SBQ generated sales of R.57 cr. Sintering unit (Phase I) is expected to go on stream in the month of Feb '10. SBQ has already spent entire amount for Phase I and on completion of sintering unit Phase I will become fully operational.

With respect to Phase II, coke oven facility has already started commercial production along with MBF. There are delays of few months in implementation of other facilities. Against estimated project cost of Rs.390 cr for Phase II, SBQ has already spent Rs.369 cr.

SBQ has started implementation of Phase III and expects to start commercial production in April 2011. It is proposed to fund the estimated project cost of Rs.418 cr with equity of Rs.136 cr and debt of Rs.282 cr (tied-up). SBQ has already spent Rs.133 cr for Phase III, funded by Rs.45 cr of equity from promoters and Rs.82 cr term loan.

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