

June 4, 2010

CARE REAFFIRMS RATINGS TO THE BANK FACILITIES/DEBT INSTRUMENTS OF SARDA ENERGY & MINERALS LTD.

CARE has reaffirmed the rating of **'CARE AA-' [Double A Minus]** assigned to the Long-term Bank Facilities of Sarda Energy Minerals Ltd (SEML) aggregating Rs.447.87 crore (enhanced from Rs.437.61 crore). This rating is applicable to facilities having a tenure of more than one year. Facilities with this rating are considered to offer high safety for timely servicing of debt obligations. Such facilities carry very low credit risk. CARE has also reaffirmed the **'PR1+' [PR One Plus]** rating assigned to the Short-term Bank Facilities of SEML aggregating Rs.217.50 crore (enhanced from Rs.190.00 crore). This rating is applicable to facilities having a tenure upto one year. Facilities with this rating would have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk. These ratings are assigned to the long-term and short-term bank facilities aggregating Rs.665.37 crore.

CARE has reaffirmed the rating of **'CARE AA-' [Double A Minus]** assigned to outstanding Non-Convertible Debenture (NCD) issue of SEML of Rs.12.50 crore. The NCDs are redeemable in five equal quarterly installments ending March 2011. Instruments with this rating are considered to offer high safety for timely servicing of debt obligations. Such instruments carry very low credit risk.

CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Facilities	Amount (Rs. Crore)	Rating
Long-term and Short-term Bank Facilities	665.37	'CARE AA-'/ 'PR1 +'
Long-term Instruments	12.50	'CARE AA-'
Total	677.87	

Rating Rationale

The ratings derive strength from experience of the promoters in the steel industry, availability of captive source of power, successful completion of the majority of the expansion projects, low gearing ratio and high debt coverage indicators.

The ratings are, however, constrained by project execution risks associated with implementation of the 30MW thermal power plant, disruption of operations of captive power plants during part of FY10, competition from unorganized players in sponge iron market and lack of complete backward integration. The ratings are also constrained by highly cyclical nature of the steel industry.

Ability of SEML to operate and utilize iron ore from captive mines along with stabilisation of the expanded capacities are the key rating sensitivities.

Company Profile

SEML manufactures sponge iron, steel billets, steel ingots and manganese-based ferro alloys. During FY10, SEML has completed four major projects viz sponge iron, pellet plant, coal mines and 30MW power plant. SEML reported net sales of Rs.948.76 crore and PAT of Rs.123.31 crore in FY09. The overall gearing ratio was comfortable at 0.98x as on March 31, 2009. On a total income of Rs.360.11 crore, SEML earned a PAT of Rs.41.76 crore in 9MFY10.

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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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