

May 5, 2010

CARE REAFFIRMS THE RATING ASSIGNED TO THE BANK FACILITIES OF SUNFLAG IRON & STEEL CO. LIMITED

CARE has reaffirmed the rating of '**CARE A**' [**Single A**] assigned to the Long-term Bank Facilities of Sunflag Iron & Steel Co. Limited (SISCO) aggregating Rs.384.06 crore (reduced from Rs.395.85 crore). This rating is applicable for facilities having a tenure of more than one year. Facilities with this rating are considered to offer adequate safety for timely servicing of debt obligations. Such facilities carry low credit risk.

CARE has reaffirmed the rating of '**PR1**' [**PR One**] assigned to the Short-term Bank Facilities of SISCO aggregating Rs.250.00 crore. This rating is applicable to facilities having tenure up to one year. Facilities with this rating would have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk. Within this category, facilities with relatively better credit characteristics are assigned PR1+ rating.

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/Instruments	Amount (Rs. crore)	Rating
Long-term Bank Facilities	384.06	'CARE A'
Short-term Bank Facilities	250.00	'PR1'
Total	634.06	

Rating Rationale

The ratings continue to derive strength from SISCO's experienced management, the company's established position in the alloy steel industry, its comfortable profitability margins and its moderate gearing ratios. The ratings also factor in the likely improvement in operating efficiencies subsequent to the successful implementation of the sinter and continuous caster projects.

The ratings are, however, constrained by a concentration on a single sector i.e. automobiles, the substantial size of the proposed project as compared to the company's net worth, absence of debt tie-up for the proposed project, various project execution risks, and exposure to volatility in raw material costs in the absence of long-term supply contracts.

The ability of SISCO to complete the proposed project without time and cost overruns and to maintain its profitability notwithstanding the cyclicity in the end-user automobile sector are the key rating sensitivities.

Company Profile

Incorporated in 1984, SISCO belongs to the Sunflag Group, and is engaged in manufacture of mild and alloy steel products at its plant in Bhandara, Maharashtra. SISCO's products are mainly used by auto component manufacturers. The company during FY09 has commissioned continuous caster and wire rod mill and a sinter plant. Further SISCO has proposed a project of Rs.413 crore involving a blooming mill which

is expected to produce 200,000 mtpa of heavy rounds in alloy steels, a DRI plant of 105,000 tpa and a captive power plant of 8 MW based on waste heat recovery.

SISCO earned a PAT of Rs.43.13 crore and reported net sales of Rs.1,099.98 crore in FY09. The company earned a PAT of Rs.62.99 crore and net sales of Rs.950.70 crore during 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.

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