

May 4, 2010

CARE ASSIGNS 'BBB-' AND 'PR 3' RATINGS TO THE BANK FACILITIES OF SURANA INDUSTRIES LTD

CARE has assigned a '**CARE BBB-' (Triple B Minus)** rating to the long term bank facilities of Surana Industries Limited (SIL). This rating is applicable for facilities having tenure of more than one year. Facilities with this rating are considered to offer moderate safety for timely servicing of debt obligations. Such instruments carry moderate credit risk. CARE has also assigned a '**PR 3' (PR Three)** rating to the short term bank facilities of SIL. This rating is applicable for facilities having tenure upto one year. Facilities with this rating would have moderate capacity for timely repayment of short-term debt obligations at the time of rating and carry higher credit risk as compared to facilities rated higher.

CARE assigns '+' or '-' signs 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	567.03	'CARE BBB-'
Short-term Bank Facilities	77.10	'PR 3'
Long/Short-term Bank Facilities	107.84	'CARE BBB-'/ 'PR 3'
Total	751.97	

Rating Rationale

The ratings factor in experience of promoters in steel trading, well established operations of the company at Gummidipoondi and integrated nature of operations (on completion of rolling mills) at Raichur. However, the ratings are constrained by high level of leverage, delays in implementation of Raichur project, commodity nature of its products (TMT bars), raw material price risk and lack of long-term sourcing arrangement for its major raw materials. Above ratings also factor in poor performance of 9mFY10 and cyclical nature of the steel industry.

Any further delays in implementation of its rolling mill facility, more than expected infusion of additional funds and/or financial assistance to its subsidiaries and continuation of poor power supply situation at its Gummidipoondi unit in Tamil Nadu are the key rating sensitivities.

Company Profile

SIL is into manufacture and sale of TMT bars and trading of MS Structurals. SIL was promoted by Mr.G.R.Surana, Mr.Dineshchand Surana and two of their brothers. The family members have four decades of experience in the field of gold jewellery trading and leasing & hire purchase. Promoters have entered into steel trading in the year 1986 and established SIL in 1991.

SIL has two manufacturing units one each at Gummidipoondi, Chennai and Raichur, Karnataka. As on Jan '10, Gummidipoondi unit has steel rolling mill and induction furnace with installed capacity of 1,09,800 TPA and 30,000 TPA respectively. Raichur unit has sponge iron capacity of 1,28,000 TPA, steel melting shop with capacity of 2,25,000 TPA and 35MW coal based captive power plant. In addition to above, SIL is also in the process of setting up steel rolling mill (for TMT bars) at Raichur unit with installed capacity of 2,00,000 TPA. This facility is expected to become operational during Q1FY11. The Raichur unit would become a Integrated Steel Plant on commissioning of this facility.

During FY09, SIL earned PAT of Rs.32 crore on total income of Rs.871 crore. Overall gearing ratio and debt equity ratio as on Mar '09 remained high at 2.81 x and 2.21 x respectively. In 9mFY10, SIL generated total income of Rs.650 crore and PAT of Rs.24 crore.

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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

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