

JUNE 03, 2015

CARE ASSIGNS “CARE BB” AND “CARE A4” RATINGS TO THE BANK FACILITIES OF SMC POWER GENERATION LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	193.94	CARE BB (Double B)	Assigned
Short term Bank Facilities	15.00	CARE A4 (A Four)	Assigned
Total Facilities	208.94		

Rating Rationale

The ratings assigned to the bank facilities of SMC Power Generation Ltd (SPGL) are constrained by the working capital intensive nature of business operations, high debt servicing obligations in the medium term, its low net profitability and solvency indicators. The ratings are also constrained by SPGL's exposure to raw material price volatility and the cyclicity inherent in the steel industry.

The ratings, however, derive comfort from the experienced promoters with an established track record of operations. The ratings also factor in the SPGL's established marketing network along with the locational advantage of its manufacturing facility in terms of proximity to raw material sources.

Going forward, SPGL's ability to achieve the envisaged revenue and profitability while effectively managing the working capital requirement shall remain the key rating sensitivities.

Background

SMC Power Generation Ltd (SPGL), a part of the SMC group, was incorporated by Mr M C Aggarwal and family members in the year 2000. SMC group is promoted by Mr Sewa Ram and is engaged in the diverse business activities comprising tobacco, steel, power, real-estate, milk and dairy products for more than 50 years. SPGL commenced construction of its semi integrated steel plant at Jhadsuguda, Odisha, in the year 2000, and the same was completed in the year 2003. Initially the steel plant had manufacturing facilities for sponge iron, billets, and power plant. Subsequently, the company added capacity for manufacturing of TMT in November 2006. At present, the company has manufacturing capacities for sponge iron of 200,000 tonnes per annum (TPA), billet of 250,000 TPA, TMT bar of 180,000 TPA and a power plant of 33MW. Sponge iron manufactured by the company is consumed captively for producing billets. Majority of the billets manufactured is further processed to TMT bars. Power requirement for the steel plant is met partially from the captive power plant. TMT is the major revenue generating segment [about 73% of revenue in FY15 (provisional – refers to the period April 1 to March 31)] followed by billets [around 23% of revenue in FY15(provisional)] and balance is contributed by power generation and other by products. During FY15, capacity utilization of billet and TMT facility stood at 45% and 46% respectively.

During FY14, the company earned a revenue of Rs.346 crore and PBILDT and PAT stood at Rs.50 crore and Rs. 2 crore respectively. For FY15 (Provisional), SPGL earned PBILDT and PAT stood at Rs.56 crore and Rs.5 crore respectively on a total revenue of Rs.370 crore.

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

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CARE has 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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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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