March 30, 2015

CARE REVISES /REAFFIRMS RATING ASSIGNED TO THE BANK FACILITY & FIXED DEPOSIT OF SCAN STEELS LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facility (Term Loan)	40.07 (reduced from 47.88)	**CARE B+ (Single B Plus)**	Revised from CARE B+ (Single B Plus) to CARE D and then revised to CARE B+ (Single B Plus)
Long-term Bank Facility (Cash Credit)	160.00	**CARE B+ (Single B Plus)**	Reaffirmed
Short Term Bank Facilities (Non-fund Based)	32.50	**CARE A4 (A Four)**	Reaffirmed
Total Facilities	**232.57**		
Medium-Term Instrument- Fixed Deposit	9.92 (reduced from 10.29)	**'CARE B+ (FD)' [Single B Plus (Fixed Deposit)]**	Reaffirmed

Rating Rationale

The revision in long term bank facility (Term Loan) rating to 'CARE D' reflects delays in debt servicing in Term loan by the company. The rating was revised as per CARE's policy of recognizing default. However, on regularization of debt servicing by the company, the long term bank facility (Term loan) ratings has been again revised to 'CARE B+'.

The ratings for Long term bank facility (Cash Credit) & Short term bank facility (Non-fund based) were reaffirmed at 'CARE B+' and 'CARE A4' respectively. CARE has also reaffirmed the rating assigned to the Fixed Deposit at 'CARE B+ (FD)'.

The ratings are constrained by the company's lack of backward integration coupled with volatility in raw material prices, stretched liquidity position coupled with high utilisation of working capital and corporate guarantee extended to the group company. The ratings, however, take into account the experience of the promoters, moderation of loss in FY14 (refers to the period April 1 to March 31) followed with profit in M9FY15 and infusion of funds by the promoters.

The ability of the company to improve its stressed liquidity position and generate profitability through optimum capacity utilisation would remain the key rating sensitivities.

Background

Scan Steels Ltd (SSL) belonging to Gadodia family of Orissa, is engaged in manufacturing of sponge iron (2, 10, 000 MTPA), ingots (1, 16, 000 MTPA) & MS rod (58,000 MTPA). SSL also has a captive power plant of 12 MW, which partially meets its power requirement.

The company was in the process of merging itself with Clarus Infrastructure Realities Ltd. (CIRL), final order of which was received by the Honb. High Court of Orissa and subsequently such merger became effective from the date the Certified Copy of the Court Order was filed with ROC, i.e.; August 12, 2014 while the appointed date of such merger is April.1, 2010. CIRL was incorporated in 1996. Post such merger, SSL is a public limited listed company.

In FY14, SPRML reported net loss of Rs.19.46 crore on total operating income of Rs.426.42. In M9FY15, the company earned a PAT of Rs. 2.64 crore on total operating income of Rs.341.10 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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

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.

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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