

**Steel Exchange India Ltd**  
**July 12, 2017**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	575.42	<b>CARE D (Single D)</b>	Revised from CARE BB (Double B)
Short-term Bank Facilities	347	<b>CARE D (Single D)</b>	Revised from CARE A4 (A Four)
<b>Total Facilities</b>	<b>922.42</b> <b>(Rupee Nine Hundred Twenty Two crore and Forty Two lakh only)</b>		

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of Steel Exchange India Ltd (SEIL) takes into consideration decline in profitability due to the subdued steel industry scenario resulting in stretched liquidity position and consequently leading to delays in servicing of debt obligations. The ability of the company to successfully implement Scheme for Sustainable Structuring of Stressed Assets (S4A) and improve its liquidity profile with subsequent regularization of debt servicing are the key ratings sensitivities.

**Detailed description of the key rating drivers****Key rating weakness:**

**Decline in profitability leading to delays in debt servicing:** During FY17 (refers to the period April 1 to March 31), liquidity position of the company continued to remain stretched on account of decline in the profitability resulting in delays in debt servicing. The decline in the PBILDT from Rs.160.80 crore in FY16 to Rs.79.99 crore in FY17 is due to decline in prices of finished goods with overall slowdown in steel sector coupled with reduced power sale resulting in cash flow mismatches for the company.

**Leverage capital structure with Scheme for Sustainable Structuring of Stressed Assets (S4A) under process:** The capital structure of the company significantly deteriorated and remained leveraged as on March 31, 2017, on account of increase in borrowings coupled with erosion of net worth due to operational losses. SEIL has approached the lenders for resolution of debt under Scheme for Sustainable Structuring of Stressed Assets (S4A). The company has met all the requirements for S4A scheme and is company is awaiting the final approval for debt alignment for SEIL under RBI S4A scheme.

**Working capital intensive nature of operations:** SEIL operates in a working capital intensive industry which is generally associated with high working capital requirements. Operating cycle of the company remained relatively stressed at 169 days in FY17 as against 89 days in FY16, on account of high inventory holding period. With subdued demand, the company has to offer more credit period which resulted in increase in working capital days.

**Subdued industry scenario:** The Indian steel industry has been struggling over last couple of years due to rising imports particularly from China, relatively subdued domestic demand, excess domestic capacity and decline in realizations due to availability of cheaper imported steel.

**Key rating strengths**

**Experienced and resourceful promoter group:** SEIL is the flagship company of the Vizag Profiles group of companies. The Chairman and Managing director, Mr B Satish Kumar is well qualified and possesses two decades of experience in various industries with more than a decade of experience exclusively in the steel industry. Mr Satish is assisted by a team of professionals who are responsible for handling the key functional areas and have experience in their respective fields for more than two decades.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Steel Companies](#)

[Rating Methodology-Manufacturing Companies](#)

[Short term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

**About the company**

Incorporated in February 1999, Steel Exchange India Ltd (SEIL) is primarily engaged in the manufacturing of TMT bars apart from billets, ingots and power generation. The company has a manufacturing facilities for sponge iron (220,000 Tons Per Annum (TPA)), billets (250,000 TPA), ingots (90,000 TPA), and TMT bars (225,000 TPA). Apart from the above, the company has a 60MW captive thermal power plant (Simhadri Power Limited; now merged with SEIL) which is located

within the premises of integrated steel facility at Maliveedu village, Vizianagaram District, A.P. of SEIL. The power plant has capacity to generate 20 MW from coal fines and char which are residual of the sponge iron activity and 16 MW of power by utilizing hot water gases from Sponge Iron Kiln. The company also has a 12 MW captive natural gas based power plant at Kothapeta, E.G. Godavari District, A.P. The company also deals in sale and purchase of steel products through its trading division and is recognized as one of the largest dealers for Rashtriya Ispat Nigam Limited.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1679.90	1285.18
PBILD	122.95	79.99
PAT	7.39	(157.13)
Overall gearing (times)	4.30	9.58
Interest coverage (times)	1.45	0.51

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2023	285.42	CARE D
Non-fund-based - ST-Letter of credit	-	-	-	347.00	CARE D
Fund-based - LT-Cash Credit	-	-	-	290.00	CARE D

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	285.42	CARE D	-	1)CARE BB (07-Oct-16)	1)CARE BBB- (09-Jul-15)	1)CARE BBB- (17-Sep-14) 2)CARE BB (08-Apr-14)
2.	Non-fund-based - ST-Letter of credit	ST	347.00	CARE D	-	1)CARE A4 (07-Oct-16)	1)CARE A3 (09-Jul-15)	1)CARE A3 (17-Sep-14) 2)CARE A4 (08-Apr-14)
3.	Fund-based - LT-Cash Credit	LT	290.00	CARE D	-	1)CARE BB (07-Oct-16)	1)CARE BBB- (09-Jul-15)	1)CARE BBB- (17-Sep-14) 2)CARE BB (08-Apr-14)
4.	Issuer Rating-Issuer Ratings	-	-	-	-	-	-	1)CARE BB+ (Is) (17-Sep-14)
5.	Issuer Rating-Issuer Ratings	-	-	-	-	-	-	-

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