

Uttam Galva Steels Limited

Registered Office : Uttam House, 69, P. D' Mello Road, Mumbai - 400 009.
Tel. : +91-22-8656 3500 • Fax : +91-22-2348 5025
CIN No.: L27104MH1985PLC035806
Website : www.uttamgalva.com



25th April, 2016

BSE Limited.
P.J. Towers,
Dalal Street,
Mumbai - 400001

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East)
Mumbai - 400 051

Sub: Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir,

This has with reference to the Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly be informed that the Credit Rating Agency namely India Ratings & Research- a Fitch Group Company has downgraded the rating of the Company to 'IND D' from 'IND BBB+'. The Press release dated 22nd April, 2016 is attached herewith.

This is for your information and records.

Thanking you
Yours truly
For Uttam Galva Steels Limited

R Agrawal
Compliance Officer

India Ratings Downgrades Uttam Galva Steels to 'IND D'; Off RWN

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By Sudarshan Shreenivas

APR 2016

India Ratings and Research (Ind-Ra) has downgraded Uttam Galva Steels Ltd's (UGSL) Long-Term Issuer Rating to 'IND D' from 'IND BBB+' while resolving the Rating Watch Negative (RWN). The agency has also downgraded the ratings on UGSL's various bank facilities to 'IND D' from 'IND BBB+' /RWN and 'IND A2' /RWN. A full list of rating actions is at the end of this commentary.

The downgrade is driven by UGSL's ongoing delays in debt servicing since February 2016. The delays are a result of the liquidity stress currently being faced by the company given the challenging operating environment and its inability to refinance its long-term borrowings according to its earlier proposed refinancing scheme. The agency has taken a consolidated view of UGSL and its subsidiaries.

KEY RATING DRIVERS

Delays in Debt Servicing: One of UGSL's lenders has confirmed to the agency about the company's continuous overutilisation of the fund-based lines in excess of 30 days in March 2016. This occurred due to the company debiting its cash credit account on the devolvement of a letter of credit in February 2016 for which it was unable to make payments when due. The company is also delaying servicing of its term debt obligations. The delays in debt servicing have been because of UGSL's constrained cash flows and inability to refinance its term debt obligations till date. In its previous rating action commentary dated 24 November 2015, the agency had stated that a further downgrade could result from UGSL's inability to refinance its term loans, leading to heightened liquidity pressure because of high debt servicing requirements and inadequate cash flow. The company is in talks with its lenders for refinancing under the 5/25 scheme, but there continues to be an uncertainty with regard to the timeline by when the same can be achieved.

Deterioration in Operating Environment: The demand-supply situation for steel in India remained weak in FY16 due to muted industrial activity and large scale cheap imports. The prices of hot rolled coils (HRC) as well as downstream products steadily dropped till January 2016, despite the safeguard duty of 20% on HRC imports imposed in September 2015. Large-scale imports of HRC, cold rolled coils and colour coated steels into India and other markets from countries such as China and Russia kept global prices of these commodities at low levels. Against this backdrop, UGSL had contracted to import large quantities of HRC for deliveries in 3QFY16. Its landed cost rose significantly in the quarter due to the safeguard duty and as a result was much higher than HRC purchased by others on spot basis from international suppliers for delivery in this period. Moreover, in 3QFY16 the landed cost of imported finished goods (for instance cold rolled coils) was lower than that of HRC after safeguard duty, due to which traders and manufacturers who had entered into contracts for large-scale imports of HRC suffered inventory write-downs.

No Benefit of Minimum Import Price: UGSL is not likely to benefit materially from the imposition of minimum import price (MIP) in January 2016 as this would primarily benefit integrated steel companies. While the landed cost for steel importers would be equal to MIP, domestic integrated steel producers will have the flexibility to price their offerings even below MIP, to remain competitive. As a result, the benefit that the company earlier had from the import of HRC (its main raw material) at competitive rates has now been largely eroded.

Sharp Deterioration in Quarterly Financials: The expected improvement in UGSL's operating profitability from the cost reduction strategies implemented during FY16 was contingent on no further drop in product prices; whereas steel prices declined sharply in the year. As a result, UGSL's EBITDA margins declined to negative 8.36% in 3QFY16 from 7.6% in the earlier quarter (8.5% in 1QFY16).

RATING SENSITIVITIES

Three consecutive months of timely debt servicing can result in a rating upgrade.

COMPANY PROFILE

Incorporated in 1985, UGSL manufactures cold rolled sheets, cold rolled close annealed sheets, galvanised plain and corrugated sheets and colour coated lines.

UGSL's ratings are as follows:

- Long-Term Issuer Rating: downgraded to 'IND D' from 'IND BBB+'; off RWN
- INR28.4bn long-term loans: downgraded to 'IND D' from 'IND BBB+'; off RWN
- INR4bn fund-based limits: downgraded to 'IND D' from 'IND BBB+'; off RWN
- INR24.4bn non-fund-based limits: downgraded to 'IND D' from 'IND A2'; off RWN
- INR1bn short-term debt: downgraded to 'IND D' from 'IND A2'; off RWN
- INR2bn standby limits: downgraded to 'IND D' from 'IND A2'; off RWN
- Proposed INR2bn non-fund-based limit: downgraded to 'Provisional IND D' from 'Provisional IND A2'; off RWN

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

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Long Term Issuer Rating	IND D / Rating Watch Off	
Fund Based Working Capital Limit	IND D / Rating Watch Off	INR 4000 m
Non-Fund Based Working Capital Limit	IND D / Rating Watch Off	INR 24360 m
Non-Fund Based Working Capital Limit	Provisional IND D / Rating Watch Off	INR 2000 m
Other	IND D / Rating Watch Off	INR 2000 m
Short Term Debt	IND D / Rating Watch Off	INR 1000 m
Term loan	IND D / Rating Watch Off	INR 28400 m
Non Convertible Debenture	IND WD	INR 1000 m
Term loan	IND WD	INR 1500 m

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Sudarshan Shreenivas

Director

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.
Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001783

Secondary Analyst

Mahaveer Jain

Associate Director

+91 22 40001768

Committee Chairperson

Sreenivasa Prasanna

Senior Director

+91 44 43401711

Media Relation

Mihir Mukherjee

Manager Corporate Communications and Investor Relations

+91 22 40356121
