Press Release

Chandan Steel Limited

November 04, 2019

Ratings

Sl No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long Term Fund Based Limits	7.00	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)	Reaffirmed
2	Long Term Debt - Term Loan	47.10 (Reduced from 57.10)	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)	Reaffirmed
3	Short Term Fund Based Facilities	147.40	IVR A2 (IVR A Two)	Reaffirmed
4	Short Term Non-Fund Facilities	280.00	IVR A2 (IVR A Two)	Reaffirmed
	Total	**481.50**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating affirmation derives strength from experienced promoters with long track record, diversified product portfolio, healthy growth in operation, capital support from promoters and comfortable gearing and debt coverage indicators. The rating however is partially offset by volatility in raw material prices, moderate profitability margins, working capital intensive operations, exposure to foreign exchange fluctuations and high competition and cyclicality in the steel industry.

Key Rating Sensitivities

Upward Factors:

Significant improvement in profitability margins and efficient management of working capital could lead to a positive rating action

Downward Factors:

Deterioration in overall gearing and debt coverage indicators and decline in profitability margins (increase in anti-dumping duty/CVD) would call for a negative rating action

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters with long track record

The company was promoted in 1984 by Mr. Chunilal Chandan after spending 15 years in steel import & trading. His two sons, Mr. Dilip Chandan and Mr. Vijay Chandan, have also been in this business for over 25 years. There are other members in the Board (including two independent directors) who are highly qualified & experienced, adding credence & professionalism in the governance of the company.

Diversified product portfolio

The company has a diversified product portfolio comprising of long products (round bars, flat bars, square bars, T-sections, angle bars and wire rod), forging products (forgings, flanges, tube sheets and ring rolled products) and seamless tubes & pipes products (boiler tubes, process pipes, U-tubes, heat exchanger tubes, wire rods and instrumentation tubes) catering to varied key sectors like Automotive, Chemical, Defence, Machine building, Oil & Gas, Petrochemical, Energy & Power and Railways and so on. This enables the company to reap the benefits of conglomeration and considerably insulates itself from any sectorial volatility.

Healthy growth in operation

The total operating income (TOI) of the company increased considerably from Rs.616.56 crore in FY17 to Rs.873.27 crore in FY18 and to Rs.1068.85 crore in FY19 due to increase in the scale of operation, on the back of increased demand for stainless steel products in both domestic as well as global markets. The increase in TOI (~22.40%) in FY19 could be primarily attributed to increase in sales price realization (5%-30% across the product segments, particularly in SS forged flanges).

Capital support from promoters

Promoters have regularly supported working capital requirement of business in the form of unsecured loans and equity. Over the last three years (FY17-FY19), promoters have infused Rs.11.36 crore as equity to support operations of the company. In addition, the company also issued preference share capital of Rs.5.83 crore in FY19.

Comfortable gearing and debt coverage indicators

Regular equity infusion by promoters coupled with repayment of debt has helped the company in improving its overall gearing ratio from 1.55x as on March 31, 2017 to 0.81x as on March 31, 2019. The long term debt to equity ratio was comfortable at 0.28x as on March 31, 2019. Total debt to gross cash accruals at 5.10 years (PY- 10.41 years) and other debt coverage indicators of the company were also comfortable as on March 31, 2019. The interest coverage ratio stood at 2.91x in FY19, which has improved from 2.17x in FY18.

Key Rating Weakness

Volatility in raw material prices

The price of stainless steel saw a volatility over the last three years. The price of S.S scrap, Nickel and Ferro molybdenum (key raw materials required for company's operation) increased by ~18%, ~35% and ~47% respectively in the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in the prices of its raw material prices and/or its finished goods. However, the company has been able to pass on to the customers as witnessed in improving margins of the company.

Moderate profitability margins

The profitability margins of the company have remained moderate over the last three years. The EBITDA and PAT margins were in the range of 6.5%-7.25% and 1.40%-1.70% respectively over the last three years. The margins had moderated in FY18 partly on account of increase in cost of raw material coupled with imposition of anti-dumping duty in U.S.A. in FY18. The company was initially not able to pass on the anti-dumping duty to its customers. However, presently CSL is able to pass on the duty to its export customers resulting in improved margins in FY19 as compared to the previous year.

Working capital intensive operation

Operations of the company are working capital intensive in nature. The inventory holding period (though improved from 164 days in FY17 to 73 days in FY19) continues to remain high. primarily on account of high level of exports involving a long transit period. The debtor collection days improved from 77 days in FY17 to 53 days in FY19. However, the company does not feel the pinch much due to availing sizeable Foreign Bill Purchase limit reducing the effective conversion cycle. This has resulted in significant improvement in the operating cycle of the company from 127 days in FY17 to 30 days in FY19. The turnover has increased by ~73.35% during this period (FY17-FY19) resulting in higher utilisation of working capital limits (~84%) during 12 months ended September 30, 2019.

Exposure to foreign exchange fluctuations

Around 88% of the sales (~Rs.903 crore) of the company in FY19 were exports and around 60% of the raw material purchased (~Rs.469 crore) were imported, accounting for net forex exposure of ~Rs.434 crore. As the company has imports as well as exports, it provides a natural hedge for the company against the foreign currency risk to some extent. The company generally hedges around 75% of its net exposure. In light of depreciation in rupee over the last four years (~Rs.60 per dollar in June 2014 to ~Rs.71 per dollar in September 2019) and that too hedged to the extent of 75%, there does not appear to be any real risk in the foreseeable future.

High competition and cyclicality in the steel industry

The company faces high competition from globally established players and Chinese steel giants. As primary source of revenue is from exports to developed markets, the company is exposed to risks such as global steel industry performance, local duties, trade wars, etc. However, the company has been able to establish a strong presence with the quality of its products. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices.

Analytical Approach & Applicable Criteria

Standalone

Financial Ratios & Interpretation (Non-Financial Sector)

Rating Methodology for Manufacturing Entities

Liquidity

The liquidity profile of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company maintains moderate cash balances to meet its liquidity requirements. Capex requirements of the company are modular and expected to be funded using debt of Rs.20 crore for which it has sufficient headroom. However, the average utilization of working capital limits remained high (~84%) during the 12 months ended September 30, 2019.

About the Company

Chandan Steel Limited (CSL) was incorporated in 1984 as Chandan Tubes & Metals Pvt. Ltd. for setting up a stainless steel manufacturing facility in Umbergaon, Gujarat. Currently, CSL is into manufacturing of long products like stainless steel billets, flats rounds, bright bars, SS flanges, SS angles and SS tubes for the engineering and infrastructure segment.

Financials **(Rs. crore)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	873.27	1068.85
EBITDA	55.47	69.82
PAT	12.13	18.34
Total Debt	264.81	189.98
Tangible Net worth	211.10	234.34
EBITDA Margin (%)	6.35	6.53
PAT Margin (%)	1.39	1.72
Overall Gearing Ratio (x)	1.25	0.81

* *Classification of financial numbers is as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits	Long Term	7.00	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)	IVR BBB+/Stable Outlook (October 24, 2018)	--	--
2.	Long Term Debt - Term Loan	Long Term	47.10 (Reduced from 57.10)	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)	IVR BBB+/Stable Outlook (October 24, 2018)	--	--
3.	Short Term Fund Based Facilities	Short Term	147.40	IVR A2 (IVR A Two)	IVR A2 (October 24, 2018)		

4.	Short Term Non-Fund Facilities	Short Term	280.00	IVR A2 (IVR A Two)	IVR A2 (October 24, 2018)		

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Parth Dattani

Tel: (022) 62396023

Email: pdattani@infomerics.com

Name: Mr. Sriram Rajagopalan

Tel: (022) 62396023

Email: srajagopalan@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits	--	--	--	7.00	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)
Long Term Debt - Term Loan	--	--	--	47.10	IVR BBB+/Stable Outlook (IVR Triple B with Stable Outlook)
Short Term Fund Based Facilities	--	--	Upto 180 days	147.40	IVR A2 (IVR A Two)
Short Term Non-Fund Facilities	--	--	Upto 90/180 days	280.00	IVR A2 (IVR A Two)