Press Release

Chandan Steels Limited

February 14, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facilities – Term Loans	28.41 (Reduced from 39.20)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Limit – Cash Credit	9.00 (Increased from 4.00)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Limit - Covid/GECL Loan	25.55	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Assigned	Simple
Short Term Fund Based Limits - PC/FBP/Gold Card	175.00 (Increased from 136.00)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Short Term Non- Fund Based Limits - Letter of Credit/ Bank Guarantee	380.00 (Increased from 280.00)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**617.96 (Rupees Six Hundred Seventeen crore and Ninety-Six lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation of the rating to the bank facilities of Chandan Steels Limited reflects the overall improvement in the financial & operational parameter since last rating as expected. The improvement in performance is because of the increase in the average realisation of products coupled with increase in sales quantity.

Further, the ratings continue to derive strength from its extensive experience of promoters and established track record in the industry, technical expertise to manufacture diversified product profile used in diverse end user industries, healthy growth in operation and comfortable capital structure and debt coverage indicators. However, the rating strengths are partially offset by export revenue vulnerable to changes in regulations, government policies and competition in export markets, profitability exposed to volatility in raw material prices and foreign exchange fluctuations and high working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in revenue and/or profitability leading to sustained improvement in debt protection metrics.

Downward Factors:

- Any decline in revenue and/or profitability due to industry, company specific or macroeconomics factors leading to sustained deterioration in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths:

Extensive experience of promoters and established track record in the industry:

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 independent directors) who are highly qualified & experienced, adding credence & professionalism in the governance of the company.

Technical expertise to manufacture diversified product profile used in diverse end user industries:

CSL 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, Defense, Machine building, Oil & Gas, Petrochemical, Energy & Power and Railways and so on. This enables the company to reap benefits of conglomeration and considerably insulate itself from any sectoral volatility.

Healthy growth in operation:

The Company has a diversified customer base spread across 50+ countries, which helps them in receiving repeated orders. The company witnessed a significant growth in operation with increase of about ~63% in turnover to Rs.1609.01 Crore in FY22 (FY22 Rs.982.92 Crore) due to increase in volume coupled with increased average sales realization and introduction of new product. The same have enabled the company to gradually improve its EBIDTA and PAT margins. EBIDTA margin grew to 12.02% in FY22 (9.53%) while PAT to 7.12% in FY22 (4.34%). The increase in margins was due to increase in realisation which led to inventory profit and also the sales quantity increased by around 15% in FY22 when compared to FY21 portraying a positive demand outlook for the products.

During 1HFY23, the company has achieved revenue of Rs.913.85 Crore (1HFY22: Rs.622.17 Crore) and EBITDA of Rs.129.10 Crore (Rs.72.65 Crore).

Comfortable capital structure and debt coverage indicators:
Company's capital structure remained comfortable with overall gearing ratio of around 0.64x in FY22 (FY21: 0.56x) and Long-Term Debt Equity ratio stood at 0.18x in FY22 (0.21x). TOL/TNW stood at 1.45 times as on 31 March 2022 (1.54x) The financial risk profile of the company is comfortable marked by net worth, debt protection metrics. The net worth of company stood at Rs.405.25 Crore as on 31 March 2022 (Rs.303.80 Crore). Total debt increased to Rs.259.64 Crore in FY22 from Rs.168.66 Crore in FY21.

Debt protection parameters also remained healthy with interest coverage ratio of 13.46x in FY22 (6.09x). Total debt/GCA as 1.98x in FY22 (2.73x). Total debt/GCA, interest coverage & other debt protection metrics expected to remain healthy moving forward.

Key Rating Weaknesses:

Export revenues vulnerable to changes in regulations, government policies and competition in export markets & increase in the contingent liabilities:
Indian stainless-steel manufacturers and exporters such as CSL face stiff competition from the Chinese, Taiwanese and Korean exporters in key markets including the EU and the USA. In addition, the operations are exposed to cyclicality faced by the downstream users of CSL's users. The Company derives ~78% of the revenue from the exports. As it is an export player, its operations are exposed to changes in duty structures in the importing countries. Any substantial change in the anti-dumping duties, either in the US or EU, can expose the Company's business risk profile. The contingent liabilities increased to Rs.60.78 crores in FY22 (FY21:Rs.1.03 crores). However, the company has an ability to absorb the same in case of crystallisation as this is about 15% of FY22 TNW which is at Rs.405.25 crores.

Profitability exposed to volatility in raw material prices and foreign exchange fluctuations:

CSL's profitability is exposed to fluctuations in raw material prices, which forms a significant percentage of the average selling price. Nickel forms ~10-15% of the stainless steel in terms of weight but constitutes up to 60% of the total cost of in terms of value. Thus, the Company's profitability is exposed to fluctuations in nickel prices. Further, as a predominantly export player, CSL's operations remain exposed to fluctuations in foreign currency rates. However, the Company has a pre-defined hedging mechanism to mitigate the risk. Also, its imports form almost 65-70% of the total raw material requirement which allows the Company with the scope of natural hedge.

High working capital intensive nature of operations:

Owing to the established business relations with customers and competition, the Company extends its credit period of 60 days while the average inventory holding period was 50 days in FY22, primarily on account of the high level of exports involving a long transit period.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The liquidity position of the company remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations. Further, the company had gross cash accruals of Rs.131.00 Crore in FY22. The current ratio stood at 1.32 times as on 31st March 2022. Cash and Cash equivalent amounted to Rs.12.24 Crore and bank deposits with maturities less than 12 months amounted to Rs.33.80 Crore as on 31st March 2022. Its average maximum fund based working capital utilization for the 12 months ended December 2022 stood around 75%. The current ratio stood at 1.32 times as at March 31, 2022.

About the Company:

Chandan Steel Limited (CSL) was incorporated in 1984 as Chandan Tubes & Metals Private Limited for setting up a stainless-steel manufacturing facility in Umbergaon, Valsad Gujarat with an installed capacity of 66,000 MTPA. Currently, CSL is into manufacturing of long products like SS billets, SS flats rounds, bright bars, SS flanges, SS angles, SS tubes and pipes, SS wire rods for the engineering and infrastructure segment.

Financials Standalone

(Rs. crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Audited)
Total Operating Income	982.91	1609.10
EBITDA	93.67	193.29
PAT	42.93	114.82
Total Debt	169.02	259.64
Tangible Net-worth	302.44	405.25
Ratios		
EBITDA Margin (%)	9.53	12.01
PAT Margin (%)	4.34	7.12
Overall Gearing Ratio (x)	0.56	0.64

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Nov 24, 2021)	Date(s) & Rating(s) assigned in 2020-21 (Nov 26, 2020)	Date(s) & Rating(s) assigned in 2019-20 (Nov 4, 2019)
1.	Long Term Fund Based Facilities – Term Loans	Long Term	28.41	IVR A-/ Stable	IVR A-/ Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
2.	Long Term Fund Based Limit – Cash Credit	Long Term	9.00	IVR A-/ Stable	IVR A-/ Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
3.	Long Term Fund Based Limit - Covid/GECL Loan	Long Term	25.55	IVR A-/ Stable	--	--	--
3.	Short Term Fund Based Limits - PC/FBP/Gold Card	Short Term	175.00	IVR A2+	IVR A2+	IVR A2	IVR A2
4.	Short Term Non- Fund Based Limits - LC/BG	Short Term	380.00	IVR A2+	IVR A2+	IVR A2	IVR A2

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Term Loans	--	--	Up to Jan 2027	28.41	IVR A-/ Stable
Long Term Fund Based Limit – Cash Credit	--	--	--	9.00	IVR A-/ Stable
Long Term Fund Based Limit - Covid/GECL Loan	--	--	--	25.55	IVR A-/ Stable
Short Term Fund Based Limits - PC/FBP/Gold Card	--	--	--	175.00	IVR A2+
Short Term Non- Fund Based Limits – LC/BG	--	--	--	380.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-ChandanSteel-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 https://www.infomerics.com/.