



Press Release

Chandan Steel Limited (CSL)

November 15, 2021

Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action
Long Term Fund Based Facilities – Term Loans	39.20 (Reduced from 45.85)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Revised
Long Term Fund Based Limit – Cash Credit	4.00 (Reduced from 7.00)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Revised
Short Term Fund Based Limits - PC/FBP/Gold Card	136.00 (Reduced from 148.00)	IVR A2+ (IVR A Two Plus)	Revised
Short Term Non- Fund Based Limits - LC/BG	280.00	IVR A2+ (IVR A Two Plus)	Revised
Total	459.20 (Reduced from 480.85)		

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision in the rating to the bank facilities of Chandan Steel Limited reflects overall improvement in the operational & financial parameters in FY21. The overall performance is expected to sustain in FY22 and beyond.

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.



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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 healthy growth in operation with increase of about ~4.5% in turnover to INR 982.91 Crore in FY21 (FY20 INR 940.89 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 9.53% in FY21 (4.91%) while PAT to 4.34% in FY21



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(1.65%). The increase in margins was due to high demand for new product introduced by the company along with increase realisation which led to inventory profit and also positive demand outlook for the products. The margins expected to remain sustainable in the short to medium term due to phased manner inclusion of new products.

During 1HFY22, the company has achieved revenue of INR 617.96 Crore (1HFY21: INR 369.14 Crore) and EBITDA of INR 72.65 Crore (INR 37.12 Crore).

Comfortable capital structure and debt coverage indicators:

Company's capital structure remained comfortable with overall gearing ratio of around 0.56x in FY21 (FY20: 0.83x) and Long-Term Debt Equity ratio stood at 0.21x in FY21 (0.20x). TOL/TNW stood at 1.55 times as on 31 March 2021 (1.79x) The financial risk profile of the company is comfortable marked by net worth, debt protection metrics. The net worth of company stood at INR 302.44 Crore as on 31 March 2021 (INR 253.33 Crore). Total debt reduced to INR 169.02 Crore in FY21 from INR 209.32 Crore in FY20.

Debt protection parameters also remained healthy with interest coverage ratio of 3.90x in FY21 (2.46x). Total debt/GCA as 2.74x in FY21 (8.90x). 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:

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 cyclicity faced by the downstream users of CSL's users. The Company derives ~85% 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.

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



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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 80 days in FY21, primarily on account of the high level of exports involving a long transit period.

Analytical Approach: Standalone

Applicable Criteria:

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 INR 61.72 Crore in FY21. The overall average utilisation of the fund based and non-fund based limits remains comfortable at 69.11% and 86.22% respectively during the last 12 months ended September 2021. The current ratio stood at 1.17 times as on 31st March 2021. Cash and Cash equivalent amounted to INR 4.23 Crore and bank deposits with maturities less than 12 months amounted to INR 34.23 Crore as on 31st March 2021.

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.



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Financials:

(INR Crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	940.89	982.91
EBITDA	46.22	93.67
PAT	15.56	42.93
Total Debt	209.32	169.02
Tangible Net-worth	253.33	302.44
Ratios		
EBITDA Margin (%)	4.91	9.53
PAT Margin (%)	1.65	4.34
Overall Gearing Ratio (x)	0.83	0.56

Status of non-cooperation with previous CRA: Nil

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (26/Nov/20)	Date(s) & Rating(s) assigned in 2019-20 (04/Nov/19)	Date(s) & Rating(s) assigned in 2018-19 (24/Oct/18)
1.	Long Term Fund Based Facilities – Term Loans	Long Term	39.20	IVR A-/ Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
2.	Long Term Fund Based Limit – Cash Credit	Long Term	4.00	IVR A-/ Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
3.	Short Term Fund Based Limits - PC/FBP/Gold Card	Short Term	136.00	IVR A2+	IVR A2	IVR A2	IVR A2



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4.	Short Term Non- Fund Based Limits - LC/BG	Short Term	280.00	IVR A2+	IVR A2	IVR A2	IVR A2
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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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	--	--	Upto Jan 2027	39.20	IVR A-/ Stable
Long Term Fund Based Limit – Cash Credit	--	--	--	4.00	IVR A-/ Stable
Short Term Fund Based Limits - PC/FBP/Gold Card	--	--	--	136.00	IVR A2+
Short Term Non- Fund Based Limits – LC/BG	--	--	--	280.00	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/Chandan-steel-lenders-nov21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities:

Sr. No.	Instrument	Complexity Indicator
1	Long Term Fund Based Facility – Term Loans	Simple
2	Long Term Fund Based Facility – Cash Credit	Simple
3	Short Term Fund Based Limits - PC/FBP/Gold Card	Simple
4	Short Term Non- Fund Based Limits – LC/BG	Simple

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/>.