



Press Release

Chandan Steel Limited (CSL)

November 26th, 2020

Sr. No	Facilities	Amount (INR Crore)	Current Ratings	Rating Action
1	Long Term Fund Based Facilities – Term Loans	45.85 (Reduced from INR47.10 Crore)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed
2	Long Term Fund Based Limit – Cash Credit	7.00	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed
3	Short Term Fund Based Limits	148.00 (Increased from INR147.40 Crore)	IVR A2 (IVR Single A Two)	Reaffirmed
4	Short Term Non-Fund Based Limits	280.00	IVR A2 (IVR Single A Two)	Reaffirmed
	Total	480.85		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating continues to derive strength from extensive experience of promoters & established track record in the industry, technical expertise to manufacture diversified product ranges used in diverse end-user industries and moderate business risk profile leading to comfortable gearing and debt coverage indicators. However, the rating strengths are partially offset by operations in export markets vulnerable to changes in regulations, government policies & stiff competition, profitability exposed to volatility in raw materials & foreign exchange fluctuations and high working capital intensive nature of operations.

Key Rating Sensitivities:

- **Upward Factor**
 - Substantial improvement in revenue and/or profitability margins leading to sustained improvement in debt coverage indicators may lead to a positive rating action
- **Downward Factor**
 - Any volatility in input prices and foreign exchange fluctuation risk leading to deterioration in revenue and/or profitability margin.



Press Release

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 two 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.

- ***Moderate business risk profile, Comfortable gearing and debt coverage indicators:***

The Company has a diversified customer base spread across ~55 countries, which helps them in receiving repeated orders. Its operating profitability stood moderate at 5.58% in FY20 with a PAT (%) of 1.87% for the same period. Moreover, sustained debt levels and healthy accruals have helped in a sustained improvement in the capital structure with overall gearing at 0.77x as on March 31st, 2020. Further, its interest coverage remained comfortable at 3.91x in FY20. TOL/TNW improved to 1.70x as on March 31st, 2020 as against 1.77x as on March 31st, 2019.

Key Rating Weaknesses

- ***Operations in export markets 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



Press Release

USA. In addition, the operations are exposed to cyclicity faced by the downstream users of CSL's users. The Company derives ~90% 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 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 70-80% of the total RMC 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 up to 55-57 days. The average inventory holding period increased to 73 days in FY20 as against 64 days in FY19, primarily on account of the high level of exports involving a long transit period.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing entities

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The liquidity of the Company is adequate characterized by sufficient cushion in accruals viz-a-viz its repayments obligations. It maintains moderate cash balances to meet its liquidity requirements. Its average working capital utilization stood at 90% for the last 12 months



Press Release

ended October 2020. Also its outstanding bank balances stood moderate at INR33.64 Crore as on March 31st, 2020.

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:

For the year ended/ As On*	(INR Crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	1068.85	944.95
EBITDA	69.82	52.72
PAT	18.34	17.63
Total Debt	179.15	204.01
Tangible Net worth	245.17	263.79
EBITDA Margin (%)	6.53	5.58
PAT Margin (%)	1.72	1.87
Overall Gearing Ratio (x)	0.69	0.77

* Classification as per Infomerics' standards

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

Any other information: N.A



Press Release

Rating History for last three years:

Sl. No	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (November 04 th , 2019)	Date(s) & Rating(s) assigned in 2018-19 (October 24 th , 2018)	Date(s) & Rating(s) assigned in 2017-18
1	Long Term Fund Based Facilities – Term Loans	Long Term	45.85 (Reduced from INR47.10 Crore)	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	--
2	Long Term Fund Based Limit – Cash Credit	Long Term	7.00	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	
3	Short Term Fund Based Limits	Short Term	148.00 (Increased from INR147.40 Crore)	IVR A2	IVR A2	IVR A2	
4	Short Term Non-Fund Based Limits	Short Term	280.00	IVR A2	IVR A2	IVR A2	

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.

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Press Release

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.

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Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Term Loans	45.85 (Reduced from INR47.10 Crore)	NA	NA	Varies from March 22 – March 26	IVR BBB+/Stable
Long Term Fund Based Limit – Cash Credit	7.00	NA	NA	NA	IVR BBB+/Stable
Short Term Fund Based Limits	148.00 (Increased from INR147.40 Crore)	NA	NA	NA	IVR A2
Short Term Non-Fund Based Limits	280.00	NA	NA	NA	IVR A2

Annexure II: Facility wise lender details



Press Release

<https://www.infomerics.com/admin/prfiles/Chandan-steel-lenders-nov20.pdf>