



Press Release

Chandan Steel Limited (CSL)

March 07, 2024

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facilities	39.60	IVR A-/Positive (IVR Single A Minus with Positive Outlook)	Rating Reaffirmed and Outlook revised to Positive	Simple
Short Term Non-Fund Based Limits	551.00	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	590.60	(Rupees Five Hundred Ninety crore and Sixty lakhs only)		

Details of Facilities are in Annexure 1

Detailed Rationale:

Infomerics Valuation and Rating Private Limited (IVR) has revised the Outlook of CSL to Positive from Stable. The Positive Outlook reflects sustained improvement in credit profile over FY22-FY23 and IVR's expectations of its sustainability over FY24-FY26. Credit profile has improved due to improvement in operating profitability. The reaffirmation of the ratings assigned to the bank facilities of CSL continues to reflect experienced promoters, healthy scale of operations, and long track record. However, these strengths are partially offset by foreign exchange fluctuation risk as exports constitutes around 70% of the total revenue for FY23, profitability exposed to volatile raw material as well as finished good prices and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Sustainability of credit profile while sustained improvement in revenue and profitability.

Downward Factors:

- Any decline in revenue and profitability and/or any unplanned debt led capex and/or any deterioration in working capital cycle leading to deterioration in credit profile.



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Key Rating Drivers with detailed description

Key Rating Strengths:

Improved credit profile and expected to remain strong:

CSL's credit profile has improved on y-o-y basis with overall gearing at 0.28x in FY23 (FY22:0.64x); while TOL/ATNW also improved to 0.71x in FY23 (FY22: 1.45x). Credit profile has improved due to improvement in EBITDA margins. IVR expects credit profile to remain strong through FY24-FY26 with expectations of strong EBITDA margins and absence of debt led capex.

Improved operating profile:

CSL's revenue has improved by 28% on y-o-y basis to Rs.2,052.06 crore in FY23 driven by improvement in realisation and volume. While EBITDA margins improved to 16.5% in FY23 (FY22: 12.01%) due to higher proportion of high-grade products in the overall revenue. During 9MFY24, CSL has reported revenue of Rs.1,484 crore and EBITDA margins further improved to 18.47%. Ability to sustained EBITDA margins at the current levels while maintaining steady growth in revenue would be a key monitorable.

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

CSL has an established track record of 4 decades in the industry, while its promoters are having more than 5 decades of experience in the steel industry. The promoters are supported by experienced management team. CSL 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, Defence, 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.



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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 cyclicalities faced by the downstream users of CSL's users. CSL derives ~70% 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 CSL 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 predominant export player with exports constituting around 70% of the total revenue for FY23, while import accounts for 50-75% of raw material. Thus, CSL exposed to volatile foreign exchange rates.

High working capital intensive nature of operations:

CSL's operations are working capital intensive in nature which reflects a net working capital cycle of 53 days at the end of FY23 (FY22:48 days). CSL extends credit period of 90-120 days to its customers; while it maintains inventory of raw materials as well as finished good of 39 days at the end of FY23.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Policy on default recognition](#)



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Liquidity – Adequate

The liquidity position of the company remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations through FY24-FY26. Further, the company had gross cash accruals of Rs.244.06 Crore in FY23. Cash and Cash equivalent amounted to Rs.73.46 Crore and bank deposits with maturities less than 12 months amounted to Rs.34.96 Crore as on 31st March 2023. The liquidity is also supported unutilised working capital limits of 177.18 crore at the end of December 23. The average non-fund-based utilisation stood at 70% for 12 months ended December 2023 whereas its fund-based limits remained unutilised. The current ratio stood at 1.79x as on 31st March 2023.

About the Company:

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

For the year ended/ As On	(Rs. crore)	
	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	1609.10	2052.06
EBITDA	193.29	343.63
PAT	114.82	224.29
Total Debt	259.64	175.67
Tangible Net-worth	405.25	634.05
Ratios		
EBITDA Margin (%)	12.01	16.75
PAT Margin (%)	7.12	10.91
Overall Gearing Ratio (x)	0.64	0.28

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Feb 14, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Nov 24, 2021)	Date(s) & Rating(s) assigned in 2020-21 (Nov 26, 2020)
1.	Long Term Fund Based Facilities	Long Term	39.60	IVR A-/Positive	IVR A-/Stable	IVR A-/Stable	IVR BBB+/Stable
2.	Short Term Non- Fund Based Limits	Short Term	551.00	IVR A2+	IVR A2+	IVR A2+	IVR A2

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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



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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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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	--	--	Up to Jan 2027	20.23	IVR A-/ Positive
Long Term Fund Based Limit – Cash Credit	--	--	--	10.00	IVR A-/ Positive
Long Term Fund Based Limit - Covid/GECL Loan	--	--	--	9.37	IVR A-/ Positive
Short Term Fund Based Limits - PC/FBP/Gold Card	--	--	--	171.00	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-Chandan-Steel-7mar24.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/>.