

Press Release

Chandan Steel Limited

October 24, 2018

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	7.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
2.	Long Term Debt - Term Loan	57.10	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
3.	Short Term Fund Based Facilities	147.40	IVR A2 (IVR A Two)
4.	Short Term Non-Fund Based Facilities	280.00	IVR A2 (IVR A Two)
	Total	491.50	

Details of Facilities are in Annexure I

Detailed Rationale

The ratings derive strength from the experience of the promoters, diversified product portfolio, joint venture with foreign steel giant, improving capacity utilization, healthy growth in operation and improving gearing and debt coverage indicators. The ratings, however, are tempered by volatility in raw material prices, moderate profitability margins, working capital intensive operation, exposure to foreign exchange fluctuations and high competition and cyclicity in the steel industry. Input price volatility and the consequential profitability trend and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters with long track record
- Diversified product portfolio
- Joint Venture with foreign steel giant
- Improving capacity utilization
- Healthy growth in operation
- Improving gearing and debt coverage indicators
- Volatility in raw material prices
- Moderate profitability margins

- Working capital intensive operation
- Exposure to foreign exchange fluctuations
- High competition and cyclicity in the steel industry

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters with long track record

CSL was promoted in 1984 by Mr. Chunilal Chandan after spending 15 years in steel import & trading, signifying his long experience in the industry. His two sons have also been in this business for over 25 years. The members of the Board are highly qualified & experienced for strengthening professionalism & governance of the company.

Diversified product portfolio

CSL has a diversified product portfolio comprising of long products like stainless steel billets, flats rounds, bright bars, SS flanges, SS angles and SS tubes for the engineering and infrastructure segment. This enables the company to reap the benefits of conglomeration and considerably insulates itself from any sectoral volatility.

Joint Venture with foreign steel giant

CSL has recently entered into a Joint Venture (JV) with Mannesmann Stainless Tubes (MST), a Germany based stainless steel manufacturing entity (a part of Salzgitter group) to achieve a better availability of EU and US made products to the Indian market and to supply Indian products to the global market.

Improving capacity utilisation

The capacity utilisation for the manufacturing facility of CSL improved over the last three years leading to increase in scale of operation. The overall capacity utilisation improved from 84.31% in FY16 to 85.90% in FY17 and further to 91.80% in FY18.

Healthy growth in operation

CSL witnessed a healthy growth of 41.64% in operation in FY18 and of 26.27% in Q1FY19 on the back of higher capacity utilisation and increased demand for stainless steel products in both domestic as well as in global market.

Improving gearing and debt coverage indicators

The promoters have infused equity aggregating to Rs.6.47 crore during FY16-FY18. This coupled with repayment of debt has helped the company to improve its overall gearing ratio. The long-term debt to equity, term debt to GCA and long-term debt to EBIDTA ratios were comfortable. The interest coverage ratio stood at 2.17x in FY18.

Key Rating Weaknesses

Volatility in raw material prices

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.

Moderate profitability margins

EBITDA and PAT margins of the company were in the range of 6.3%-7.3% and 1.4%-1.7% respectively over the last two years. EBITDA margin moderated partly on account of increase in cost of raw material coupled with imposition of anti-dumping duty in U.S. in FY18. However, in the current year, CSL has been able to position itself better consequently EBITDA margin improved to 7.50% in Q1FY19.

Working capital intensive operation

The inventory holding period was high at around 110 days in FY18, primarily on account of high level of exports involving a long transit period. The debtor collection days are 61 days in FY18. The operating cycle of the company stood at around 67 days in FY18.

Exposure to foreign exchange fluctuations

As the company has imports as well as exports, it provides a natural hedge for the company against the foreign currency risk to great extent. The company generally hedges around 75% of its net exposure.

High competition and cyclicity in the steel industry

CSL faces stiff competition from globally established players and Chinese steel giants. As primary source of revenue is from exports to the developed market, the company is exposed to risks such as global steel industry performance, local regulations/duties, trade wars, etc. 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

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

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. The facility is ISO 9001:2008 certified, fully integrated stainless steel manufacturing plant spread across an area of 2,50,000 sq. metres. The company became a public limited company in 1989 and name of the company was changed to its current name. Mr. Chunilal G. Chandan, the promoter of the company, commenced his entrepreneurial journey by setting up a partnership firm, M. Chunilal & Company, way back in 1969 which was engaged in importing of steel products and selling in the domestic market. The products of CSL can be categorised into three broad segments namely long products division, forging division and seamless pipes & tubes division. The company exports its products to over 60 countries and exports constitute about 90% of the sales revenue of the company. CSL's Board of Directors comprises seven members (four representing promoter's family, of which three are executive directors, one professional director and two independent directors). Mr. Dilip Chandan is the Managing Director of the company having overall control on the affairs of the company including international marketing. Mr. Vijay Chandan is the Joint MD looking after the finance and administration of the company.

Financials (Standalone)

(Rs. crore)

For the year ended/ As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	616.56	873.27
EBITDA	44.20	55.47
PAT	10.28	12.13
Total Debt	302.07	264.81
Tangible Networth	195.41	211.10
<u>Ratios</u>		
EBITDA Margin (%)	7.17	6.35
PAT Margin (%)	1.67	1.39
Overall Gearing Ratio (x)	1.55	1.25

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund Based Facilities	Long Term	7.00	IVR BBB+/Stable Outlook	--	--	--
2.	Term Loan	Long Term	57.10	IVR BBB+/Stable Outlook	--	--	--
3.	Fund Based Facilities	Short Term	147.40	IVR A2	--	--	--
4.	Non-Fund Based Facilities	Short Term	280.00	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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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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Long Term Fund Based Facilities- Cash Credit	-	-	-	7.00	IVR BBB+/Stable Outlook
Long Term Debt-Term Loan	-	-	Dec 2026	57.10	IVR BBB+/Stable Outlook
Short Term Fund Based Facilities- PC/FBP	-	-	-	147.40	IVR A2
Short Term Non-Fund Based Facilities- LC	-	-	-	280.00	IVR A2