

Chinar Steel Segment Centre Private Limited: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	30.00	SMERA BB/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) to the Rs.30.00 crore long term bank facility of Chinar Steel Segment Centre Private Limited (Chinar Steel). The outlook is '**Stable**'.

The rating draws comfort from the extensive experience of the promoters in the steel trading business and established market position. The rating also draws support from the healthy growth in revenue and the above average financial risk profile marked by comfortable net worth, low gearing and healthy debt protection metrics. However, the rating is constrained by the low profitability and the intense competition in the said line of business. The rating also factors in the company's exposure to volatility in steel prices.

The promoters of Chinar Steel possess experience of over three decades in steel trading. The company sells a range of hot-rolled and cold-rolled coils, sheets and TMT bars in Jharkhand, Bengal, Bihar, Punjab, Madhya Pradesh to name a few.

The revenues grew significantly to Rs.65.91 crore in FY2016 from Rs.39.42 crore in FY2014, a three-year CAGR of 19 per cent.

The above average financial risk profile of Chinar Steel is reflected in its net worth of Rs.12.73 crore and debt equity of 0.34 times in FY2016. The ratio draws comfort from the unsecured loans from promoters of Rs.6.35 crore in FY2016 that have been treated as quasi-equity as per the undertaking submitted to SMERA. The rating is also supported by the healthy debt protection metrics marked by interest coverage ratio of 1.43 times and DSCR of 1.34 times in FY2016.

The rating also notes the purchase of machinery from a sick unit (UP government-owned) for Rs.75 crore which would be dismantled and sold off at relatively higher margins. The said project apart from being cost effective also lends revenue visibility over the medium term.

However, the rating is constrained by the low profitability as reflected in the net margin of 0.41 per cent in FY2016 as against 0.40 per cent in FY2015.

The rating also takes into account the intense competition and cyclical nature in the steel industry. Pricing and availability of steel can be volatile due to numerous factors including general domestic and international economic conditions, labour costs, sales levels, competition. This volatility can significantly affect the availability and cost of raw materials.

Rating Sensitivity Factors

- Scaling up operations and profitability
- Extent of capex and its funding mix

Outlook-Stable

SMERA believes that Chinar Steel will maintain a stable outlook in the medium term backed by its promoters' extensive experience and revenue growth. The outlook may be revised to 'Positive' if the company registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' if the company fails to achieve expected revenues or profitability or if the working capital cycle elongates.

Criteria applied to arrive at the rating:

- Trading Entities

About the Company

Established in 2007 by Mr. Bankey Bihari Singh, the Jharkhand-based Chinar Steel trades in hot-rolled and cold-rolled coils, steel plates and bars in Jharkhand, Bengal, Bihar, Punjab to name a few.

For FY2015-16 (refers to financial year April 01 to March 31), Chinar Steel reported profit after tax (PAT) of Rs.0.27 crore on operating income of Rs.66.12 crore, as compared with profit after tax (PAT) of Rs.0.11 crore on operating income of Rs.28.21 crore in FY2014-15.

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ABOUT SMERA

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