Press Release

CHINAR STEEL SEGMENT CENTRE PRIVATE LIMITED

June 05, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** from **'ACUITE BB'** **(read as ACUITE double B)** on the Rs. 30.00 crore bank facilities of CHINAR STEEL SEGMENT CENTRE PRIVATE LIMITED (CSSCPL). The outlook is **'Stable'**.

The rating upgrade is on account of continuous growth in operating income with improvement in the profitability margins. The group's revenue grew at a CAGR of 31 percent for the period FY2016 to FY2019 (Provisional) under study. The EBITDA margins have increased to 8.19 per cent in FY2019 (Provisional) as against 3.67 per cent in FY2016. Acuité believes that going ahead CG will sustain growth in revenues over medium term on account of healthy order book position of Rs. 172.04 crore.

CSSCPL was incorporated in 2007 as a steel trading company by Mr. Bankey Bihari Singh. The company is currently engaged in trading of steel scraps (segregated into ferrous and non ferrous) which are dismantled from plant & machineries (P&M) purchased from sick units as well as from companies where P&M are ideal or in obsolete state. The P&M which are in good condition are sold directly without dismantling. The steel trading business is shifted in its group concern Chinar Steel Segment Centre (CSSC), a proprietorship firm. The company bids only for government or semi government tenders.

About the Group

Chinar Group (CG) was founded in 1997 by Mr. Bankey Bihari Singh. The group includes Chinar Steel Segment Centre Private Limited (CSSCPL) and Chinar Steel Segment Centre (CSSC). The group is engaged in trading of steel products and steel scraps of plant & machineries purchased from sick units.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Chinar Steel Segment Centre Private Limited (CSSCPL) and Chinar Steel Segment Centre (CSSC) together referred to as the 'Chinar Group' (CG). The consolidation is in view of the similar line of business, common management and corporate guarantee given by CSSC to CSSCPL. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  The group was founded in 1997 thus has an operational track record of over two decades. Mr. Bankey Bihari Singh has an experience of over four decades and Mr. Ravi Shankar Kumar has over a decade of experience in the aforementioned line of business. This has helped the group maintain long standing relations with customers and suppliers. Acuité believes that the group will sustain its existing business profile on the back of its established track record of operations and experienced management.

- **Improving scale of operations and profitability**
  The revenues of the group have grown at a CAGR of 31 percent from FY2016 to FY2019 (Provisional). The revenues of the group stood at Rs. 422.87 crore in FY2019 (Provisional) as against

Rs. 319.09 crore in FY2018 and Rs. 223.61 crore in FY2017. This is mainly due to increased tender allocation from government. EBITDA margins have significantly improved and stood at 8.19 percent in FY2019 (Provisional) as against 6.79 percent in FY2018 and 3.67 percent in FY2017. Profit after Tax (PAT) margin stood at 5.37 percent in FY2019 (Provisional) as against 4.66 percent in FY2018 and 2.16 percent in FY2017. Acuité believes the group's ability to maintain its scalability while maintaining its margin will be a key monitorable.

- **Moderate financial risk profile**

The financial risk profile of the group stood moderate marked by moderate net worth, debt protection metrics and coverage indicators. The net worth of CG stood at Rs. 60.48 crore as on 31 March 2019- Provisional (includes quasi equity of Rs. 8.51 crore) as against Rs. 31.29 crore as on 31 March 2018. The gearing (debt-equity) stood at 0.54 times as on 31 March 2019 (Provisional) as against 1.72 times as on 31 March 2018. The total debt of Rs. 32.64 crore as on 31 March 2019 (Provisional) mainly comprises Rs. 16.15 crore of working capital borrowings, Rs. 14.34 crore of long term debt and Rs. 2.15 crore of unsecured loans. The coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) which stood at 6.73 times for FY2019 (Provisional) as against 8.18 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.71 times in FY2019 (Provisional) as against 0.28 times in FY2018. Debt to EBITDA stood at 0.92 times in FY2019 (Provisional) as against 2.42 times in FY2018. Acuité believes that the financial risk profile of the group is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Moderate working capital operations**

The group's working capital operations are moderate marked by Gross Current Assets (GCA) of 154 days for FY2019 (Provisional) as against 107 days in the previous year. Debtors stood low at 8 days for FY2019 (Provisional) as against 11 days for FY2018. Inventory level stood high at 123 days for FY2019 (Provisional) as against 44 days for FY2018. This is mainly due to high value of orders received at year end. Further, the average bank limit utilization stood at 22.83 percent for the past six months ending February 2019.

- **Tender based nature of business**

The business of the group depends upon the number of tenders floated by the government and bid success rate of the group. The group is also exposed to intense competition from other contractors.

- **Inherent cyclicality in steel trading industry**

The group is exposed to inherent cyclicality in the steel industry. The profit margins and revenues of the group remains exposed to inherent cyclicality in the steel industry and fluctuations in steel prices.

Liquidity Position

The group has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 23.15 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 7.18 crore for the same period. The cash accruals of the group are estimated to remain in the range of ~Rs. 25.00 crore to Rs. 35.00 crore against debt obligation of ~Rs. 14.34 crore in FY2020. The group's working capital operations are moderate marked by gross current asset (GCA) days of 154 days for FY2019 (Provisional). The group maintains unencumbered cash and bank balances of Rs. 0.75 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.29 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the group is likely to remain moderate over the medium term on account of moderate cash accrual against its maturing debt obligation over the medium term.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on the back of its experienced management, healthy scale of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

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About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	422.87	319.09	223.61
EBITDA	Rs. Cr.	34.65	21.65	8.21
PAT	Rs. Cr.	22.70	14.86	4.83
EBITDA Margin	(%)	8.19	6.79	3.67
PAT Margin	(%)	5.37	4.66	2.16
ROCE	(%)	39.27	28.33	15.23
Total Debt/Tangible Net Worth	Times	0.54	1.72	2.00
PBDIT/Interest	Times	6.73	8.18	3.17
Total Debt/PBDIT	Times	0.92	2.42	5.33
Gross Current Assets (Days)	Days	154	107	168

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria

• Default Recognition -https://www.acuite.in/criteria-default.htm
• Trading Entities -https://www.acuite.in/view-rating-criteria-6.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Feb-2019	Cash Credit	Long Term	30.00	ACUITE BB (Indicative)
30-Nov-2017	Cash Credit	Long Term	30.00	ACUITE BB (Indicative)
07-Sep-2016	Cash Credit	Long Term	30.00	ACUITE BB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB)

Contacts

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About Acuité Ratings & Research:
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