



Press Release
CHA UDHR Y STEELS PRIV ATE LIMITED
December 06, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	13.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE BBB-(read as ACUITE Triple B minus)** on Rs. the 13.00 Cr bank facilities of Chaudhry Steels Private Limited (CSPL). The outlook is 'Stable'.

Rationale for rating

The rating assigned reflects the experienced management along with established track record of operations of more than five decades and moderate debt protection metrics with gearing below unity. Further, the rating considers the adequate liquidity of the company with a low reliance on short term bank borrowings with an average utilization of 37% in last 7 months ending September 2023. The rating also factors in growing revenue driven by increase in metal prices. However, the above mentioned strengths are partly off-set by the working capital intensive operations of the company with a high GCA days of 126 days and vulnerability in the margins due to fluctuations in the raw material prices of the company.

About the Company

Chaudhry Steels Private Limited (CSPL) was incorporated in 1972 and is situated in Bulandshahr, Ghaziabad. The company has been in the business of manufacturing and selling of MS Ingots. There are currently 150 employees in the company (both skilled and unskilled included). CSPL is manufacturing various types of Steel Ingots for forging through Electric Furnace. Chaudhry Steels Private Limited is promoted by Mr. Manish Agarwal, Mr. Udit Agarwal and Mr. Dhirender Kumar.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has taken the standalone view on the business and financial risk profile of CSPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced Management and established track record of operations

CSPL was incorporated in 1972 and engaged in manufacturing of MS Ingots. Currently the company is managed by Mr. Manish Agarwal, Mr. Udit Agarwal and Mr. Dhirender Kumar who has an experience in manufacturing of MS Billets and has an established track record of operations of more than five decades. The company caters to strong customer base in

various end-user industries.

Acuite believes that experience of the promoters will help company to flourish in long term.

Improvement in the scale of operations

The company witnessed increase in the top-line FY23 to Rs.146.80 Crore against Rs.116.66 Crore in FY22 and Rs.58.94 Crore. The increase in the revenue is on an account of increase in the capacity utilizations and market dynamics. Further, the margins of the company are attributable to volatility in the raw material prices resulting into pressure on margin which stood at 5.00% in FY23 against 5.11% in FY22. Also, the PAT margins of the company stood at 2.92% in FY23 against 3.12% in FY22. The company have achieved the net sales of Rs.82 Crore approximately till October 2023. Going forward, the company is expected to achieve the top line under the range of Rs.170 Crore which will be resulted into better margins.

Acuite believes that the ability of company to ramp up the production and increase its top line is a key rating sensitivity.

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by moderate net-worth, gearing and debt protection metrics. The net worth of the company stood at Rs.37.02 Crore as on 31st March 2023 against Rs.32.72 Crore as on 31st March 2022. The total debt of the company stood at Rs.28.19 crore as on 31st March 2023 against Rs.19.70 crore as on 31st March 2022. The long term debt of the company comprises Unsecured loans (interest bearing) of Rs.23.92 Crore and short term debt of Rs.4.27 Crore as on 31st March 2023. Further, the ICR and DSCR ratio of the company stood at 3.69 times and 3.05 times respectively as on 31st March 2023 against 5.06 times and 4.11 times respectively as on 31st March 2022. The gearing ratio of the company stood on 0.76 times as on 31st March 2023.

Further, TOL/TNW ratio stood at 1.07 times as on 31st March 2023 against 0.89 times as on 31st March 2022. Acuite believes that financial risk profile of the company is likely to improve in near to medium term as company does not have any long term debt and not planning for any debt funded capex in near future.

Weaknesses

Working Capital Intensive Operations

The working capital operations of the company are intensive marked by GCA days stood at 126 days as on 31st march 2023 against 152 days as on 31st march 2022. The GCA days are improved on an account of debtor days which stood at 59 days as on 31st March 2023 against 74 days as on 31st March 2022. As company have changed its policy to reduce credit period from 90 days to 60 days. Further, the inventory days of the company stood at 58 days as on 31st March 2023 against 39 days as on 31st March 2022. The average inventory days maintains by the company is approximately 30-60 days and the average debtor days maintains by the company under the range of 30-60 days. On the other hand, the creditor days of the company stood at 19 days as on 31st March 2023.

Acuite believes that the working capital operations of the company will remain the same range in near to medium term.

Fragmented industry characterized by intense competition and vulnerability to changes in commodity prices

The company works in a highly competitive and fragmented segment of the Indian aluminium market, which is characterised by the existence of numerous small, unorganised players. As a result, the industry's players have little pricing power and are subject to pressure from the competition to increase their profitability. Aside from this, its products, which are mostly used by intermediaries, are exposed to the risks linked to industry cyclicity and pricing volatility. The susceptibility of the margins to changes in the raw materials price is inherent in this industry.

Rating Sensitivities

- Maintaining moderate financial risk profile.
- Ability to ramp up the production resulting in revenue growth with sustained profitability margins.
- Elongation of working capital cycle leading to stretch in liquidity

All Covenants

None.

Liquidity Position**Adequate**

The liquidity position of the company is adequate. The company have generated net cash accruals of Rs.4.83 Crore as on 31st March 2023 against no repayment debt obligation as company does not have any long term debt. Going forward, the company is expected to generate sufficient net cash accruals. The current ratio of the company stood at 4.25 times as on 31st March 2023 against 3.87 times as on 31st March 2022. The unencumbered cash and bank balance stood at Rs.2.14 Cr in FY23 against Rs.0.15 Crore in FY22. The average bank limit utilization of the company stood at 36.98% in last seven months ending September 2023.

Outlook: Stable

Acuité believes that CSPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to completion of capex and growing top line. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues while maintaining its margins and is able to improve working capital operations. Conversely, the outlook may be revised to 'Negative' if the company generates lower than anticipated cash accruals, most likely due to significant debt funded capex or impact on profitability margins, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

Not applicable.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	146.80	116.66
PAT	Rs. Cr.	4.29	3.64
PAT Margin	(%)	2.92	3.12
Total Debt/Tangible Net Worth	Times	0.76	0.60
PBDIT/Interest	Times	3.69	5.06

Status of non-cooperation with previous CRA (if applicable)

CSPL tagged as Issuer non cooperating from Brickworks at BWR BB-/Stable on the bank facilities of Rs.13.00 Crore dated 21/03/2023.

Any other information

Not applicable.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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