

Press Release

Champion Rolling Mill Private Limited

October 17, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.34.00 crore bank facilities of CHAMPION ROLLING MILL PRIVATE LIMITED. The outlook is '**Stable**'.

Champion Rolling Mill Private Limited (CRPL), incorporated in 2004 by Mr. Mohd Yunus Khan, Mr. Mohd Shafique Khan and Mr. Mohd Kalim Khan, is engaged in manufacturing of MS angles, MS Beam, MS channel, MS scrap and sludge. The manufacturing facility is situated at Wada in Palghar district (Maharashtra) with an installed capacity of 90,000 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of CRPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

CRPL was established in early 1970s as Champion Enterprises, a partnership firm by the family of the promoters. The initial business operations included trading in iron billets. Later, the promoters decided to establish a new private limited company in 2004 and started manufacturing of MS Beams, MS Channels, MS Angles and MS Tangles in 2008. Thus, the management has more than four decades of experience in the steel industry.

Acuité believes that CRPL will benefit from experienced management, which will help the company to maintain long standing relations with its customers and suppliers.

• Moderate financial risk profile

The company has moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection measures. The tangible net worth of the company stood moderate at Rs.29.37 crore as on March 31, 2019 (Provisional) against Rs. 26.09 crore as on March 31, 2018. The net worth includes unsecured loans of Rs. 5.92 crore in FY2019 (Provisional) from promoters, which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing (debt-equity) remained low at 0.60 times as on March 31, 2019 (Provisional) against 0.67 times as on March 31, 2018. The total debt outstanding of Rs.17.66 crore as on 31 March, 2019 consist mainly of working capital borrowing of Rs.17.26 crore and term loan of Rs. 0.40 crore. The coverage indicator of the company stood at moderate levels. ICR stood at 3.18 times and DSCR stood at 3.32 times in FY2019 (Provisional). Total outside liabilities to tangible net worth stood at 1.82 times as on 31 March, 2019 (Provisional). The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.34 times for FY2019 (Provisional). Return on Capital Employed (RoCE) stood at 11.94 per cent in FY2019 (Provisional).

Acuité believes that the financial risk profile will continue to remain moderate on account of improved cash accruals and growth in revenue.

Weaknesses

• Uneven revenue trend and profitability

The revenue trend of CRPL is uneven during the period FY2016 to FY2019 (Provisional) under the study. This is majorly on account of fluctuation in the steel prices which has impacted the scale of operations of the company. The operating income stood at Rs. 206.79 crore in FY2019 (Provisional) as against Rs.161.97 crore in FY2018, Rs. 150.28 crore in FY2017 and Rs.180.55 crore in FY2016. Acuité believes that the ability of the company to maintain its revenue stream in such a highly competitive market and volatile steel prices will be key rating sensitivity.

Further, the margins of the company are susceptible to volatility in raw material prices, which have been uneven during the period under study. Significant changes in raw material prices due to import pressure and over supply would have an impact on the margins of the company. The company's operating margins stood at 3.79 per cent in FY2019 (Provisional) as against 4.88 per cent in FY2018 and 4.79 per cent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 1.59 per cent in FY2019 (Provisional) as against 0.98 per cent in FY2018 and 0.97 per cent in FY2017. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

• Moderate working capital operations

The company has moderate working capital operations marked by Gross Current Asset days of 110 days in FY2019 (Provisional) as against 126 days in FY2018. This is majorly on account of high inventory holding period of 85 days in FY2018 (Provisional) as against 101 days in FY2018. The company maintains inventory of around 100-120 days in order to supply bulk orders. The receivable days stood at 24 in FY2019 (Provisional). The company gets extended credit period from its suppliers of around 60-75 days, which moderates the working capital requirements. The average bank limit utilisation stood at ~85 per cent for the last six months ended September, 2019. Acuité believes that CRPL's operations will remain working capital intensive due to high inventory holding period inherent in this industry.

Rating Sensitivity

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Substantial improvement in scale of operation (~Rs. 235.00-250.00 crore), while maintaining profitability margin of around 5.5-7 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 3.8 crore - Rs. 6.0 crore during the last three years through 2017-19 (Provisional); while the maturing debt obligations were in the range of Rs. 0.1 crore over the same period. The cash accruals are estimated to be in the range of Rs. 5.5 crore – Rs. 6.5 crore during 2019-21, while its repayment obligations at Rs. 0.13 crore over the same period. The company maintains cash and bank balances of Rs. 0.09 crore as on March 31, 2019 (Provisional). The current ratio stood moderate at 1.35 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

Outlook: Stable

Acuité believes that CRPL will maintain a 'Stable' outlook over the medium term benefitting from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins and deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	206.79	161.97	150.28
EBITDA	Rs. Cr.	7.83	7.90	7.20
PAT	Rs. Cr.	3.28	1.59	1.46
EBITDA Margin	(%)	3.79	4.88	4.79
PAT Margin	(%)	1.59	0.98	0.97
ROCE	(%)	11.94	11.73	11.19
Total Debt/Tangible Net Worth	Times	0.60	0.67	0.84
PBDIT/Interest	Times	3.18	2.80	2.53
Total Debt/PBDIT	Times	2.12	2.12	2.73
Gross Current Assets (Days)	Days	110	126	127

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

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
25-Jul-2018	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3 (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	20.00	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuite.in	

About Acuité Ratings & Research:

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