Press Release

Champion Rolling Mill Private Limited

January 05, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.34.00 Cr bank facilities of Champion Rolling Mill Private Limited (CRMPL). The outlook is **'Stable'**.

Incorporated in the year 2004, CRMPL is a Maharashtra based company. The promoters of the company are Mr.Mohd. Yunus Khan, Mr. Mohd. Shafique Khan and Mr. Mohd. Kalim Khan. The company is engaged in manufacturing of MS Angles, MS Beams, MS Channels, MS T-Angles, MS Scraps and sludge. The manufacturing facility is located at Wada, Maharashtra with an installed capacity of 90,000MTPA. In FY2020, the company manufactured 52698MT of products. The utilization stood at 58.55 percent.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

CRMPL was established in early 1970's as Champion Enterprises, a partnership firm by the family of the promoters. The initial business operation of the company included trading of Iron Billets. Later in the year 2004, the constitution of the firm was changed to a private limited company and started commercial production of MS Angles, Channels, T-Angles and Beams in the year 2008. The promoters of the company have more than four decades of experience in the steel industry. The extensive experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers. The company has its customers predominantly in Maharashtra. However, it is also engaged in exporting. It exports to Oman only.

Acuité believes that the company will benefit from the extensive experience of the promoters along with a healthy relationship with its customer and suppliers.

- **Moderate financial risk profile**

CRMPL's financial risk profile is moderate marked by moderate net worth, low gearing and moderate debt protection metrics. The company's net worth is moderate and is estimated at around Rs.30.08Cr (Prov.) as on March 31, 2020 as against Rs.28.15Cr as on March 31, 2019. The gearing continues to remain low at 0.75 times (Prov.) as on March 31, 2020 as against 0.63 times as on March 31, 2019. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 1.81 times (Prov.) as against 1.92 times as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.3.55Cr (Prov.) in FY2020. The decline in the profitability level, coupled with low debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at

0.16times (Prov.) and 2.34times (Prov.) respectively as against 0.28times and 3.18times in FY2019, respectively. The Debt-EBITDA ratio stands at 2.96time (Prov.) in FY2020 against 2.12 time in FY2019.

Acuité believes the financial risk profile of the company is expected to remain moderate backed by moderate cash accruals and no major debt funded capex in near to medium term.

Weaknesses

- **Uneven revenue trend and profitability**

The revenue trend of CRMPL is uneven during the period FY2018 to FY2020 (Prov.) 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 revenue of the company has declined by around 7.69 percent to Rs.190.80crore (Prov.) in FY2020 from Rs.206.70Cr in FY2019. However, in terms of quantity, the company was able to sell 52698MT of products in FY2020 as against 49838MT in FY2019. EBITDA in absolute term has declined marginally to Rs.7.23Cr (Prov.) in FY2020 as against Rs.7.75Cr in FY2019. The decline in EBITDA is due to volatility in the raw material prices. Subsequently, the PAT of the company has declined marginally to Rs.1.93Cr (Prov.) in FY2020 from Rs.2.07Cr in FY2019.

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 oversupply would have an impact on the margins of the company. However, in FY2020, the profitability margins have remained almost the same as compared to FY2019.

Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

- **Working capital operation is moderately intensive in nature**

CRMPL's working capital operation is moderately intensive in nature as it is reflected by its gross current asset (GCA) days of around 120 days (Prov.) in FY2020 as against 109 days in FY2019. The company's inventory holding period has increased to 101 days (Prov.) as on March 31, 2020 as against 85 days as on March 31, 2019. This is because the company manufactures 32 different sets of products for which it needs to maintain a higher inventory of finished product so as to cater the spot orders as well as the bulk orders. The company offered credit period of around 17 days (Prov.) as on March 31, 2020 to its customers as against 24 days as on March 31, 2019. On the other hand, the company got a credit payment period of 65 days (Prov.) as on March 31, 2020 to pay its suppliers. The average bank limit utilization stood high at around 91.18 percent for seven months ended September, 2020, while its peak utilization was high at around 96.70 percent during the same period.

Acuité expects the working capital management to remain intensive over the medium term on account of high inventory level maintained, which is inherent in the aforementioned industry.

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.55Cr (Prov.) in FY2020. The cash accrual of the company is estimated to remain around Rs.3.50Cr to Rs.5.00Cr during 2021-23 against repayment obligations of around Rs.0.20Cr to Rs.2.00Cr during the same period. The company's working capital operation is moderately intensive marked by the gross current asset (GCA) days of 120 days (Prov.) in FY2020 as against 109 days in FY2019. The average bank limit utilization stood high at around 91.18 per cent for seven months ended September, 2020. The company maintains unencumbered cash and bank balances of Rs.0.08Cr (Prov.) as on 31 March 2020. The current ratio of the company has improved to 1.36 times (Prov.) as on 31 March 2020 from 1.33 times as on March 31, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Substantial improvement in scale of operation, while maintaining the profitability margins
- Any stretch in the working capital cycle leading to an increase in working capital borrowings and weakening of financial risk profile

Outlook: Stable

Acuité believes that CRMPL will maintain a stable outlook over the medium term backed by its experienced management and established track record of operation in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the company faces stretched Working capital cycle or fall in revenue or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	190.80	206.70
PAT	Rs. Cr.	1.93	2.07
PAT Margin	(%)	1.01	1.00
Total Debt/Tangible Net Worth	Times	0.75	0.63
PBDIT/Interest	Times	2.34	3.18

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Oct-2019	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A3 (Reaffirmed)
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)

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