

Press Release

Champion Rolling Mill Private Limited

March 23, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	20.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	34.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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**'.

Rationale for reaffirmation of ratings

The rating continues to drive comfort from the extensive experience of the promoters in the line of business, established relationships with its customer and supplier base, moderate financial risk profile along with adequate liquidity position, and expected improvement in operating income in FY2022 as against FY2021. The rating nonetheless remains constrained on account of lack of stability in its profitability indicators and the subsequent impact of which on its coverage indicators during the FY2019-21 period, and susceptibility of the performance of the company on the steel prices and intensive working capital requirements.

About the Company

Incorporated in the year 2004, CRMPL is a Maharashtra-based entity promoted by Mr. Mohd. Yunus Khan, Mr. Mohd. Shafique Khan and Mr. Mohd. Kalim Khan. The company is engaged in the manufacturing and marketing of MS Angles, MS Beams, MS Channels, MS T-Angles, MS Scraps, and sludge in the domestic market with a manufacturing facility is located at Wada, Maharashtra with an installed capacity of 90,000 MTPA.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of CRMPL to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations supported by the expected improvement in operating performance in FY2022

CRMPL was established in the early 1970s as Champion Enterprises, a partnership firm by the family of the promoters. The initial business consisted of 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.

Further, CRMPL has been able to improve its performance in YTD-FY2022 marked by operating income of Rs.233.78 Cr. in FY2022 (YTD-February 2022) on the back of increasing steel prices and volume sales as informed by the management. Volume sales of CRMPL stood at 55000 tonnes till February 2022 and are expected to reach up to 60000 tonnes in FY2022 as against volume sales of ~40000 tonnes in FY2021.

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 improving net worth, stable gearing, and moderating coverage Indicators. The net worth stood at Rs.26.16 Cr. as on March 31, 2021 as against Rs.24.25 Cr. as on March 31, 2020 on the back of accretion of profits to reserves. The gearing continues to remain stable at 1.15 times as on March 31, 2021 as against 1.18 times as on March 31, 2020, while the Total outside liabilities to tangible net worth (TOL/TNW) levels stand at 2.20 times as on March 31, 2021 as against 2.47 times as on March 31, 2020. Further, the company generated net cash accruals of Rs.3.38 Cr. in FY2021. The decline in the net profitability level, coupled with stable debt levels, has led to moderate debt protection measures. The DSCR stood at 1.94 times in FY2021 as against 2.10 times in FY2020, while the ICR stood at 2.15 times in FY2021 as against 2.34 times in FY2020.

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 the near to medium term.

Weaknesses

Declining revenue trend and profitability till FY2021

The revenue of CRMPL has witnessed consistent deterioration on a Y-O-Y basis since FY2019 marked by operating income of Rs.175.03 Cr. in FY2021 as against Rs.190.89 Cr. in FY2020 and Rs.206.70 Cr. in FY2019. This is majorly due to the impact of covid-19 wherein the volume sales have been impacted. Profitability indicators have witnessed an uneven trend marked by EBITDA margins of 4.10 percent in FY2021 as against 3.67 percent in FY2020 and 3.75 percent in FY2019, while the PAT margins have witnessed marginal improvements 1.09 percent in FY2021 as against 1.06 percent in FY2020 and 1.00 percent in FY2019. 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.

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

Intensive Working capital requirement

CRMPL's working capital remains intensive marked by Gross Current Asset (GCA) days to 137 days in FY2021 as against 120 days in FY2020 and 109 days in FY2019. Inventory holding period stood stable at 102 days in FY2021 as against 101 days in FY2020, while its debtors' collection period marginally elongated to 24 days in FY2021 as against 17 days in FY2020 due to the impact of Covid-19 during the Q4 period. Further, creditors' payment period was reduced to 53 days in FY2021 as against 59 days in FY2020. An increase in GCA is attributed to a significant increase in cash and bank balances of Rs.3.07 Cr. in FY2021 as against Rs.0.07 Cr. in FY2020. Higher inventory is because the company manufactures 32 different sets of products for which it needs to maintain a higher inventory of finished products so as to cater the spot orders as well as the bulk orders. The average bank limit utilization stood at ~88 percent for the 6-month period ended February 2022.

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

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

Material covenants

None

Liquidity Position: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.38 Cr. in FY2021 while its maturing debt obligations stood minimal. The cash accrual of the company is expected to be Rs.6.00 Cr. to Rs.8.00 Cr. during 2022-24 as against repayment obligations of ~Rs.1.20 Cr. annually during the same period. The company's working capital requirements are moderately intensive marked by the gross current asset (GCA) days of 137 days in FY2021 as against 120 days in FY2020. The average bank limit utilization stood high at ~88 percent for the 6-month period ended February, 2022. The company maintains unencumbered cash and bank balances of Rs.3.07 Cr. as on March 31, 2021. The current ratio of the company has improved to 1.55 times as on March 31, 2021.

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.

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 a fall in revenue, or a deterioration in the financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	175.03	190.89
PAT	Rs. Cr.	1.91	2.02
PAT Margin	(%)	1.09	1.06
Total Debt/Tangible Net Worth	Times	1.15	1.18
PBDIT/Interest	Times	2.15	2.34

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

Not Applicable

Any other information

None

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<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Jan 2021	Letter of Credit	Short Term	14.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
17 Oct 2019	Letter of Credit	Short Term	14.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3 Reaffirmed

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About Acuité Ratings & Research

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