

Rating Advisory

August 18, 2021 | Mumbai

Chaman Metallics Limited

Advisory as on August 18, 2021

This rating advisory is provided in relation to the rating of Chaman Metallics Limited

The key rating sensitivity factors for the rating include:

Downward scenario:

- Decline in the ratio of net cash accrual to current portion of long-term debt to below 2 times and weakening in the capital structure leading to gearing of more than 1.5 times
- EBITDA (earnings before interest, tax, depreciation, and amortization) below that in FY 2019-20 because of high cost of production, slower ramp-up of operations at new unit, or lower realisations

Upward scenario:

- Sustained increase in revenue by 15% and sustenance of operating margin at 8.5-9%
- Improvement in the working capital cycle

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Chaman Metallics Limited (CML) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If CML continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the group

The GR group is promoted and managed by Mr Ramesh Agrawal and his sons, Mr Keshav Agarwal and Mr Chetan Agarwal. Its manufacturing units are at Raipur, Chhattisgarh, and in Maharashtra.

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NRSPL, incorporated in 2002, was acquired by the current promoters in 2014. It also manufactures sponge iron.

CML was acquired by the promoters in fiscal 2020. Located in Maharashtra, the company manufactures sponge iron.

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Rating Rationale

December 02, 2020 | Mumbai

Chaman Metallics Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.20 Crore
Long Term Rating	CRISIL BBB/Negative (Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB/Negative/CRISIL A3+' ratings on the bank facilities of Chaman Metallics Limited (CML; part of the GR group).

The ratings continue to reflect the extensive experience of the promoters in the steel industry, the GR group's partly integrated operations and tie-ups with suppliers, and adequate financial risk profile. These strengths are partially offset by susceptibility to cyclicalities in the steel industry and volatility in raw material prices.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of CML, G.R. Sponge and Power Ltd (GRSPL), GR Minerals and Industries Pvt Ltd (GRMIPL) and NR Sponge Pvt Ltd (NRSPL). All the companies, collectively referred to as the GR group, are in the same business, have common promoters and significant operational, managerial and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- * **Promoters' extensive experience in the steel industry:** Benefits from the promoters' experience of more than three decades and their established relationships with suppliers and customers should continue to support the business risk profile.
- * **Partly integrated operations and agreements with suppliers:** Operations are partly integrated with the presence of a captive power plant for GRSPL and GRMIPL. Furthermore, the group has entered into agreements with key suppliers for coal and iron ore, leading to assured supply at fixed prices.
- * **Adequate financial risk profile:** The financial risk profile is supported by healthy network and gearing of Rs 106.41 crore and 1.08 times, respectively, as on March 31, 2020. Debt protection metrics were robust, as reflected in interest coverage and net cash accrual to total debt ratios of 3.3 times and 0.14 time, respectively, in fiscal 2020.

Weakness:

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* **Susceptibility to volatility in raw material prices and intense competitive pressure:** Volatility in the prices of key raw materials (coal and iron ore) has constrained operations in the past. Since demand for steel is closely linked to economic activity, susceptibility to cyclical demand and fluctuations in realisations persist. Furthermore, intense competition continues to impinge on realisations and profitability.

Liquidity Adequate

Bank limit utilisation was moderate at 69% on average for the 12 months ended June 30, 2020. CRISIL believes the bank limit utilisation will remain moderate on account of large working capital requirement. Cash accrual is expected to be more than sufficient to meet term debt obligation, over the medium term, at around Rs 15 crore and will provide a liquidity cushion. Current ratio was healthy at 1.4 times as on March 31, 2020. The business continues to be supported by unsecured loans from the promoters.

Outlook: Negative

CRISIL believes the extensive experience of the promoters and raw material procurement linkages will enable the company to tide over the business disruptions caused by the Covid-19 pandemic.

Rating Sensitivity factors

Upward factors:

- * Sustained increase and sustained operating margin
- * Improvement in the working capital cycle

Downward factors:

- * Debt-funded capital expenditure which weakens gearing (excluding unsecured loan) above 1 time and interest coverage ratio below 2 times
- * Generation of accrual below Rs 10 crore

About the Group

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Key Financial Indicators

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	336.4	312.2
Reported profit after tax (PAT)	Rs crore	20.5	9.4
PAT margin	%	6.1	3.0
Adjusted debt/adjusted networth	Times	0.8	1.2
Interest coverage	Times	6.12	2.87

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BBB/Negative
NA	Letter of credit	NA	NA	NA	10	NA	CRISIL A3+

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
G.R. Sponge and Power Ltd	100%	Common management and business, and financial fungibility
GR Minerals and Industries Pvt Ltd	100%	Common management and business, and financial fungibility
NR Sponge Pvt Ltd	100%	Common management and business, and financial fungibility

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	10.00	CRISIL BBB/Negative			20-12-19	CRISIL BBB/Negative					Suspended
Non Fund-based Bank Facilities	LT/ST	10.00	CRISIL A3+			20-12-19	CRISIL A3+					Suspended

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	10	CRISIL BBB/Negative	Cash Credit	10	CRISIL BBB/Negative
Letter of Credit	10	CRISIL A3+	Letter of Credit	5	CRISIL A3+
--	0	--	Proposed Fund-Based Bank Limits	5	CRISIL BBB/Negative
Total	20	--	Total	20	--

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Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crsil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crsil.com</p>	<p>Mohit Makhija Director - CRISIL Ratings CRISIL Limited B:+91 124 672 2000 mohit.makhija@crsil.com</p> <p>Argha Chanda Associate Director - CRISIL Ratings CRISIL Limited D:+91 33 4011 8210 Argha.Chanda@crsil.com</p> <p>Aditi Fatesaria Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 33 4011 8232. Aditi.Fatesaria@crsil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crsil.com</p> <p>For Analytical queries: ratinginvestor@crsil.com</p>

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