Gajanan Iron Private Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	44.21 (Reduced from 47.56)	**CARE BBB (CE); Stable* [Triple B (Credit Enhancement); Outlook: Stable]**	**Reaffirmed**
Short term Bank Facilities	1.25	**CARE A3 (CE)* [A Three (Credit Enhancement)]**	**Reaffirmed**
Total Bank Facilities	**45.46 (Rs. Forty-Five Crore and Forty-Six Lakhs Only)**		

^ Details of instrument/facilities in Annexure-1

**backed by unconditional & irrevocable Letter of comfort from Gagan Ferrotech Limited which is backed by a copy of board resolution*

Unsupported Rating [1]	**CARE BBB- / CARE A3 (Triple B Minus/ A Three)**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating assigned to bank facilities of Gajanan Iron Private Limited (GIPL) is based on the credit enhancement in the form of unconditional and irrevocable letter of comfort (LoC) from Gagan Ferrotech Limited (GFL) which is backed by a copy of board resolution for the rated bank facilities of GIPL. GFL is engaged in production and trading of iron & steel related products, TMT bars and rods which are sold under the brand name 'Gagan'.

Detailed Rationale & Key Rating Drivers of Gagan Ferrotech Limited (GFL, LoC provider)

The credit profile of Gagan Ferrotech Limited (GFL) continues to derive strength from its experienced promoters and satisfactory financial risk profile marked by improving profitability and moderate capital structure. The rating also factors in the successful completion of the capacity expansion initiative in Feb 2020 followed by satisfactory utilization of the same.

The credit profile of GFL is however constrained by profitability susceptible to volatility in the prices of raw materials, forex fluctuation risk and inherent cyclical nature of the steel industry.

Rating Sensitivities

Positive Factors:

- The ability of the company to improve its scale of operations (beyond Rs.1200 cr) with improvement in the operating margins (beyond 8%) on a sustainable basis.

Negative Factors:

- Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure (gearing ratio > 1 times) and debt coverage indicators (TD/GCA > 10 times) on a sustained basis.
- Any substantial decline in capacity utilization (i.e. more than 15%) and operating profit margin below 4%.

Key Rating Drivers of Gajanan Iron Private Limited (GIPL) for unsupported ratings

The rating assigned to the bank facilities of Gajanan Iron Private Limited (GIPL) continues to draw strength from the experienced promoters, favorable plant location, consistent improvement in the capacity utilization, improvement in financial performance during FY20 (refer to the period from April 01 to March 31) and moderate capital structure.

The ratings are, however, constrained by small scale of operation, profitability susceptible to volatility in the prices of raw materials and inherent cyclical nature of steel industry.

Detailed description of the key rating drivers of Gagan Ferrotech Limited (GFL, LoC provider)

Key Rating Strengths

Experienced promoters

GFL was earlier promoted by two friends – Mr. Deepak Agarwal and Mr. Vinay Kumar Agarwal. After the mutual arrangement between the promoters, the entire stake of Mr. Deepak Agarwal in GFL was transferred to Mr. Vinay Kumar & family. Mr. Vinay Kumar Agarwal now looks after the day-to-day affairs of the company along with the support from experienced professionals. He has an experience of more than two decades in trading and manufacturing of iron and steel products.

[1] As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Successful completion of the capacity expansion initiatives with satisfactory utilization
GFL had taken up project for expansion of capacities of various product segments which were to be funded through a mix of term debt, internal accruals and equity infusion. The COD of the project is Feb 2020 (revised from Dec 2019) with total cost of Rs.171.06 crore (revised from Rs.133 crore) which was funded out of term loan of Rs.77.34 crore and the rest i.e. Rs.93.72 crore through equity, unsecured loans and creditors. The capex has resulted in time and cost overrun.
During FY20, the capacity utilization though moderated, however remained satisfactory at 84% for Sponge iron (107% in FY19) and 76% for MS Billets (89% in FY19) and 69% for Re-rolled products (117% in FY19). During H1FY21, the company witnessed further moderation in the capacity utilization across its entire product segments owing to the nationwide lockdown due to Covid-19 (wherein the production was stopped till mid May 2020) and subdued demand. The same has improved in the recent months post easing of lockdown measures and gradual ramping-up of the economic activities.

Financial risk profile marked by improving profitability and moderate capital structure
The total operating income of GFL remained more or less in line with FY19 at Rs.921.76 crore in FY20. The PBILDT margin however, improved marginally by 38bps to 6.48% in FY20. The company reported PAT of Rs.26.97 crore in FY20 vis-à-vis Rs.23.03 crore in FY19. GCA improved and remained comfortable at Rs.46.29 crore in FY20 (Rs.42.52 crore in FY19) vis-à-vis scheduled debt repayment obligation of Rs.1.71 crore. The company has earned total operating income of Rs.321.36 crore during H1FY21 which further increased to Rs.535.46 crore till November 2020. The volumes were impacted during April 2020 and May 2020 due to suspension of operations on account of shutdown of the plant owing to intermittent complete/partial lockdown which had largely created supply chain bottleneck. However with the gradual reopening of the economy, the demand for steel has shown significant recovery.
The overall gearing ratio of the company moderated to 0.85x as on March 31, 2020 from 0.47x as on March 31, 2019 incidental to availment of term loan for capex and increase in the working capital borrowings towards the end of the fiscal. Further, Total Debt/ GCA also moderated from 4.05x as on Mar 31, 2019 to 7.09x as on March 31, 2020 due to higher debt levels.

Key Rating Weaknesses
Profitability susceptible to volatility in the raw-material prices
Raw-material (i.e. coal, iron-ore and pig-iron) is the largest cost component, accounting for around ~70% of the total cost of sales in FY20. Given that the raw material is the major cost driver and the prices of which are highly volatile, the profitability of the company remains susceptible to volatility in raw-material prices. The company's profitability is also susceptible to foreign exchange fluctuation risks as it imports coal from South Africa & Mozambique (having better calorific value) and exports billets/TMT bars to Nepal & West Africa. However, GFL has a policy to generally hedge its foreign exchange exposure thereby mitigating the forex fluctuation risk to some extent.

Cyclical nature of steel industry
Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand. Consequently, the inherent cyclicality in the steel industry exposes steelmakers to a high degree of earnings volatility, which in turn leads to swings in debt protection metrics

Industry Outlook:
For the whole year FY21, crude steel production is expected to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half of the current fiscal. While large and integrated players have reported faster return to normalcy after Covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility. An up-cycle in international steel prices is expected in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high. Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices.

Liquidity Position: Adequate
GFL has adequate liquidity characterized by sufficient cushion in accruals (Rs.46.29 crore vis-à-vis repayment obligations of Rs.4.64 crore in FY20) and cash and bank balance of Rs.20.74 Crore (including fixed deposit of Rs.5.10 cr. kept under lien with banks) as on March 31, 2020. Going forward the GCA projected is sufficient to meet the debt repayment obligations of Rs.17.4 crore in FY21. Further, its bank limits are utilized to the extent of ~46% during the past 12 months ended September 2020, supported by above unity current ratio.

Further, GFL has not availed moratorium on principal repayment/deferment of interest on CC under Covid-19 Regulatory Package announced by the RBI.

Analytical approach: Guarantor's Assessment
The rating is based on the risk assessment of Gagan Ferrotech Limited (GFL), the LoC provider of the rated debt of GIPL which is backed by a copy of board resolution.

Analytical Approach for unsupported rating: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short term Instruments
Complexity level of rated instruments
Liquidity Analysis of Non-Financial Sector Entities
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Criteria for Rating Credit Enhanced Debt

Guarantor's Background – Gagan Ferrotech Limited
Incorporated in 1993, Gagan Ferrotech Ltd (GFL; erstwhile Gagan Commodities Pvt. Ltd.) is promoted by Mr. Vinay Kumar Agarwal. Post incorporation, the company remained dormant for more than a decade and then started its operations in 2006 by setting up a 66,000 MTPA sponge iron plant at Burdwan, West Bengal. Over the years, GFL has forward integrated its operation by setting up a billet and rolling mill facility in 2010 and captive power plant in 2011. Currently, the company has sponge iron capacity of 2,40,000 MTPA, billets of 3, 20,000 MTPA, TMT bars of 3,00,000 MTPA along with captive power plant of 12 MW. It is also engaged in trading of iron & steel related products, TMT bars and rods which are sold under the brand name 'Gagan'

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	926.54	921.76
PBILDT	56.54	59.74
PAT	23.03	26.97
Overall gearing (times)	0.51	0.85
Interest coverage (times)	6.14	4.81

A: Audited

Company's Background – Gajanan Iron Private Limited
Incorporated in 2005, Gajanan Iron Private Limited (GIPL) was founded by Mr. Vishal Sarda, Mr. Siddharth Sarda, Mr. Niranjan Gourisaria & Mrs. Richa Gourisaria for setting up a 82,500 MTPA mild structural steel manufacturing plant at Jamuria Industrial Estate, Burdwan in West Bengal. After mutual agreement between the promoters, Gagan Group took over the Management Control of GIPL from October 17, 2017 and infused fresh funds to complete the project. Mr. Vinay Agarwal and Mr. Kailash Megotia were inducted in the Board on November 03, 2017. Mr. Vinay Kumar Agarwal now looks after the day-to-day affairs of the company along with the support from experienced professionals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	158.16	242.62
PBILDT	5.37	7.61
PAT	1.94	1.95
Overall gearing (times)	8.01	1.42
Interest coverage (times)	3.35	3.38

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June-2023	6.21	CARE BBB (CE); Stable
Fund-based - LT-Cash Credit	-	-	-	38.00	CARE BBB (CE); Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.25	CARE A3 (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB- / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	6.21	CARE BBB (CE); Stable	-	1)CARE BBB (CE); Stable (25-Dec-19) 2)CARE BBB (SO); Stable (12-Jun-19)	1)CARE BBB (SO); Stable (26-Nov-18)	1)CARE B+; Stable (30-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	38.00	CARE BBB (CE); Stable	-	1)CARE BBB (CE); Stable (25-Dec-19) 2)CARE BBB (SO); Stable (12-Jun-19)	1)Provisional CARE BBB (SO); Stable (26-Nov-18)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A3 (CE)	-	1)CARE A3 (CE) (25-Dec-19) 2)CARE A3 (SO) (12-Jun-19)	1)Provisional CARE A3 (SO) (26-Nov-18)	-
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	1)Withdrawn (12-Jun-19)	-	-
5.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB- / CARE A3	-	1)CARE BBB- / CARE A3 (25-Dec-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

1. Cash Credit Limit	Detailed explanation
A. Financial covenants	Margin shall be 25% (minimum) on raw materials, stock in process, finished goods and other stores and 40% on receivables not exceeding 90 days.
B. Non-financial covenants	The borrower shall submit monthly stock report giving complete list of all stocks and book debts within 10 days of the following month
2. Bank Guarantee Limit	
A. Financial covenants	Margin shall be 20% by way of FD
B. Non-financial covenants	Deferred payment guarantees or guarantee for the purpose prohibited by RBI will not be issued under the limit. The guarantee shall be issued only for the purpose permitted in the sanction.
3. Term Loan limit	
A. Financial covenants	Failure in timely repayment of loan instalments and servicing of interest, penal interest @ 2% p.a. over and above the applicable ROI and/ or at such rate to be decided by the bank from time to time to be recovered.
B. Non-financial covenants	NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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