Gravity Ferrous Private Limited

October 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	61.92 (Enhanced from 54.73)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the rating, CARE has combined the operational and financial risk profiles of Gravity Ferrous Private Limited (GFPL) and Gravity Iron and Power Private Limited (GIPPL) collectively referred to as 'Group', because of the managerial, operational, and financial linkages between the Group companies.

The reaffirmation in the rating of GFPL takes into account the rich experience of the promoters, strategic location of the plant, healthy scale of operations albeit moderation due to divestment of one of the existing units in FY24 to partly fund the greenfield project in GIPPL, coupled with satisfactory capacity utilisation, stable profitability which is expected to improve further with backward integration of the group through GIPPL, and satisfactory capital structure & debt protection metrics. The rating, however, continues to be constrained by profitability being susceptible to volatility in raw material prices, intense competition & cyclical nature of steel industry and exposure to project stabilisation risk.

The rating also takes into account the successful commissioning of greenfield project for setting up a 16 MW WHRB power plant & a 350 TPD sponge iron plant well in advance of its envisaged COD.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations of the Group beyond Rs.800 crores and operating margin beyond 5% on sustained basis.
- Diversification of product portfolio
- Improvement in capital structure of the group marked by overall gearing below unity on a sustained basis.

Negative factors

- Decline in scale of operations of the Group below Rs.500 crores and operating margin below 1.5% on a sustained basis.
- Any further debt laden capex leading to deterioration of capital structure beyond 1.5x on a sustained basis.
- Elongation in operating cycle of the group beyond 80 days on a sustained basis.

Analytical approach: Combined

For arriving at the rating, CARE has combined the operational and financial risk profiles of GFPL and GIPPL as companies are engaged in similar line of business under a common management and have significant operational and financial synergies.

Outlook: Stable

Stable outlook indicates that the Group is expected to sustain its financial & operational performance along with stabilisation of operations in the greenfield project in GIPPL.

Detailed description of key rating drivers:

Key strengths

Rich experience of the promoters: The Group's promoters belong to two different groups: Bhawani group (Mr. Vikas Agrawal & Mr. Sunil Agrawal) and AC Strips group (Mr. Dhiraj Surana and Mr. Virendra Surana). All the promoters have around two decades of experience in the relevant field.

Strategic location of plants: The plants of the Group are located at Raipur, Chhattisgarh. Raipur is abundantly rich in mineral resources and is among the biggest producers of steel and iron in the country. GFPL had two manufacturing units, out of which one was divested in fiscal 2023. Currently the company has one unit with capacity of 1,45,830 MTPA for production of billets and other re-rolled products. The unit is located in proximity to its raw material suppliers and customers. The plant is also well connected through road (4 km from National Highway-30) and railways (10 km from Raipur Junction - Railway Station) which facilitates easy transportation of raw materials and finished goods. Further, the new unit set up in GIPPL is also well connected through road, rail (9km from Tilda Railway Station) and airway (61km from Raipur Airport).

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Healthy scale of operations albeit moderation due to divestment in one of the existing units in FY24, along with stable margins: GFPL's TOI stood healthy, though moderated to Rs. 524 crores in FY24 from Rs. 955 crores majorly on account of planned divestment of its Unit-2, leading to moderation in existing capacity of the group. However, the divestment proceeds have been utilised for part funding of GIPPL's plant. As the plant will act as a backward integration for the existing capacities, the same will help in enhancing the raw materials price stability along with improved margins going ahead. Also, with the newly installed WHRB plant, the group will be producing its own power at very low cost, leading to substantially lower cost in future. The group is in process of taking approvals for and installing transmission towers, which will enable it to transfer the excess power produced from the WHRB plant to GFPL. The same is expected to be completed by Dec'24. Power cost constitutes 14% of the cost of sales in FY24 (15% in FY23) and is the major cost after raw materials in production of TMT.

Further the PBILDT margin on standalone basis for GFPL improved by 48 bps from 0.99% in FY23 to 1.47% in FY24 on account of better utilisation of plant capacity.
In Q1FY25, GFPL has booked a revenue of Rs. 123 crores. Under GIPPL, the group has booked revenues of Rs. 88 crores till August 31, 2024.

Satisfactory capital structure and debt protection metrics: The debt to equity of the group stood satisfactory, though moderated at 0.93x as on March 31, 2024, as against 0.61x on March 31, 2023. Overall gearing ratio also stood moderated to 1.27x as on March 31, 2024 from 0.78x as on March 31, 2023. The moderation (as envisaged) was on account of debt laded capex in GIPPL coupled with higher utilization of working capital limits. However, Total debt/GCA improved slightly to 4.20x in FY24 from 4.26x in FY23 on account of a substantial increase in PAT levels due to profit from divestment of assets under Unit II. Going forward, capital structure is expected to improve in the medium term on account of ramping up of operations in the Group.

Key weaknesses

Profitability susceptible to volatility in raw material prices: Steel is generally manufactured in a continuous process to keep down the power costs. Uninterrupted supply of raw materials is thus imperative for continuous production processes. Companies which produce pig iron & sponge iron captively have control over supply of their raw material for production of billets and thus are more capable of being cost efficient than only billet producers. The control over supply could be either in the form of backward integration or long-term supply contracts; however, the former is preferable for higher profitability. The company did not have backward integration for its basic raw materials (i.e. iron ore/coal/pig iron/ sponge iron/scrap) earlier and had to purchase the same from open market. Since the raw material is the major cost driver (around 78% of the cost of sales in FY24 as against 82% in FY23) and raw material prices are volatile in nature, the profitability margin of the company was susceptible to fluctuation in raw material prices. However, with the commencement of DRI plant in GIPPL, the volatility of GFPL's major raw material, i.e. sponge iron, has reduced to a larger extent.

Intense competition & cyclical nature of steel industry: Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Elimination of project risk under GIPPL; albeit project stabilisation risk marked by nascent stage of operations: The group under GIPPL had taken up a greenfield project for setting up a 350 TPD DRI plant & a 16 MW WHRB plant for a total cost of Rs. 141 crores, the project got commissioned well in advance against planned COD of Oct'24. As on August 31, 2024, GIPPL has generated revenues of Rs. 88 crores. Even though the project achieved its COD in advance, its ability to scale up its operations as envisaged remains a key rating monitorable.

Liquidity: Adequate

Liquidity is adequate marked with goss cash accruals of Rs. 33.36 crores against debt repayment obligations of Rs. 2.64 crores in FY24. The group also had free cash balance to the tune of Rs. 7.28 crores as on Mar 31, 2024. Average utilisation of fund-based limits was to the extent of `50% for the last 12 months ended June 30, 2024.
Going forward the group is expected to generate sufficient GCA for servicing of its scheduled debt repayment obligation of Rs.3.60 crore in FY25.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies

[Financial Ratios – Non financial Sector](#)
[Iron & Steel](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Gravity Ferrous Private Limited (GFPL) was incorporated in 2004. GFPL was initially engaged in trading of re-rolled products. In December 2013, the company set up a rolling mill (Unit-I) with an installed capacity of 60,000 TPA. GFPL had taken on lease the plant and machinery of its group company Bhawani Hi-Tech Pvt ltd (BHTPL) of capacity of 30,000 TPA (started operations in May 2015) and merged it with Unit-I. Post expansion of Unit-I, GFPL started project work on the second TMT plant (Unit-II) (capacity of 90,000 TPA), which commenced production from July, 2017. GFPL sells TMT bars under the brand name of "AC Turbo" and mainly sells to wholesale traders through 4-5 dealers based out of Chhattisgarh.
Over the year the company has increased its Rolling Strip Capacity to 1,50,000 MTPA along with Billet capacity of 1,20,000 MTPA in Unit 1. Further in FY22 the company started with setting up of a Reheating Furnace which would allow external billets to be converted into TMT/ MS Pipes. The same got operational in June 2023. In FY24, the company sold its Unit II to partly fund its project in GIPPL.
Gravity Iron and Private Limited (GIPPL) was incorporated in November 2020 for setting up a 16MW WHRB and 350 TPD Sponge Iron plant. The project has commenced its operations well in advance.

Brief Financials - Combined (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	955.00	523.95
PBILDT	9.47	7.69
PAT	8.97	24.35
Overall gearing (times)	0.78	1.27
Interest coverage (times)	2.22	2.33

Brief Financials - Standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	955.00	523.70	122.66
PBILDT	9.47	7.68	-
PAT	8.94	24.34	-
Overall gearing (times)	0.51	0.50	-
Interest coverage (times)	2.22	2.33	-

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB-; Stable
Term Loan-Long Term		-	-	30/06/2028	11.92	CARE BBB-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Oct-24)	1)CARE BBB-; Stable (09-Oct-23)	1)CARE BBB; Stable (02-Aug-22)	1)CARE BBB; Stable (26-Oct-21) 2)CARE BBB; Stable (06-Oct-21)
2	Fund-based - LT/ ST-Bank Overdraft	LT/ST	-	-	-	-	-	1)Withdrawn (26-Oct-21)
3	Term Loan-Long Term	LT	11.92	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Oct-24)	1)CARE BBB-; Stable (09-Oct-23)	1)CARE BBB; Stable (02-Aug-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-33-40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-67543444 E-mail: Ankur.sachdeva@careedge.in	Gopal Pansari Associate Director **CARE Ratings Limited** Phone: +91-33-40181647 E-mail: gopal.pansari@careedge.in Subham Churiwala Analyst **CARE Ratings Limited** E-mail: Subham.Churiwala@careedge.in

About us:

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