

## Gajanan Iron Private limited

June 12, 2019

### Ratings

Facilities*	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities- Term loan	9.90 (reduced from 11.16)	<b>CARE BBB (SO); Stable</b> <b>[Triple B (Structured Obligation);</b> <b>Outlook: Stable]</b>	<b>Reaffirmed</b>
Long term Bank Facilities- Cash Credit	38.00	<b>CARE BBB (SO); Stable</b> <b>[Triple B (Structured Obligation);</b> <b>Outlook: Stable]</b>	<b>Final Rating</b>
Long term Bank Facilities- Cash Credit (Proposed)	0.00	-	<b>Withdrawn</b>
Short-term Bank Facilities- Bank Guarantee	1.25	<b>CARE A3 (SO)</b> <b>[A three (Structured Obligation)]</b>	<b>Final Rating</b>
<b>Total Facilities<sup>@</sup></b>	<b>49.15</b> <b>(Rs. Forty nine crore and</b> <b>fifteen lakh only)</b>		

\*Details of facilities in Annexure-1

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

### Detailed Rationale & Key Rating Drivers

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 from Gagan Ferrotech Limited (GFL) which is backed by a copy of board resolution for the rated bank facilities of GIPL.

Gagan Ferrotech Limited is engaged in production and trading of iron & steel related products, TMT bars and rods which are sold under the brand name 'Gagan'. The credit profile of GFL derives strength from its experienced promoters, high capacity utilization, satisfactory financial risk profile marked by improving profitability and moderate capital structure.

The credit profile of GFL is however constrained by profitability susceptible to volatility in the prices of raw materials and foreign exchange movement, working capital intensive nature of operations, risk associated with implementation of large-size project and inherent cyclical nature of steel industry.

Ability of the company to increase the scale of operations while maintaining the profitability margins and capital structure going ahead and timely completion of the ongoing project without any cost over-run would remain the key rating sensitivities.

### Detailed description of the key rating drivers of Gagan Ferrotech Limited

#### 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.

##### High capacity utilization

GFL's capacity utilization of sponge iron, billet and TMT bar continued to remain on the higher side during FY19.

##### Financial risk profile marked by improving profitability and moderate capital structure

GFL's scale of operation has grown with a y-o-y growth of ~9% in FY19 (Prov.), primarily driven by higher realizations coupled with higher quantity sale which is attributable to increase in domestic steel demand. PBILD margin improved from 3.96% in FY18 to 5.93% in FY19 (Prov.) on the back of overall improvement in the production efficiency. Accordingly, PAT level and margin also improved in FY19 (Prov.) and GCA continued to remain comfortable at Rs.41.10 cr. in FY19 (Prov.) vis-à-vis debt repayment obligation in FY18. Overall gearing and Total debt/GCA improved from 0.81x and 8.89x as

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

on March 31, 2018 to 0.54x and 4.52x as on March 31, 2019 (Prov.) respectively, mainly attributable to infusion of equity capital and accretion of profit to reserve.

### Key Rating Weaknesses

#### **Profitability susceptible to volatility in the prices of raw materials**

Raw-material (i.e. coal, iron-ore and pig-iron) is the largest cost component, accounting for around 80% of the total cost of sales in FY19. 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 and exports billets/TMT bars to Nepal & West Africa. However, GFL has a policy to generally hedge its foreign exchange exposure.

#### **Working capital intensive nature of operations**

GFL's operation is working capital intensive in nature as it has to offer high credit period to its customer in view of intense competition in the industry and need to maintain inventory for smooth manufacturing operations.

#### **Risk associated with implementation of large-size project**

GFL have taken up project for expansion of capacities for its product line which are to be funded through a mix of term debt, internal accruals and equity infusion which is thereby likely to impact the capital structure of the company. Till April, 2019 GFL has already expended Rs.99.60 crore (total project cost is Rs.174.00 crore) and the expansion is expected to be completed by December 2019 (revised from July, 2019).

#### **Inherent cyclical nature of steel industry**

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. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements.

**Liquidity profile of Gagan Ferrotech Limited:** The promoters have extended continuous support to the company and have infused in Rs.68.25 crore in FY19 (as against Rs.38.62 crore in FY18) to fund its ongoing capex plans and support its increasing scale of operations. The average utilization of fund-based working capital limit during the 12 month ending May 2019 was around 55%. Besides this, GFL had a cash & bank balance of Rs.20.56 crore as on March 31, 2019 (Prov.).

**Analytical approach:** Credit enhancement in the form of unconditional and irrevocable letter of comfort by Gagan Ferrotech Limited which is backed by a copy of board resolution.

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company - Gajanan Iron Private Limited

Incorporated in 2005, Gajanan Iron Private Limited (GIPL) was founded by Mr. Vishal Sarada, Mr. Siddharth Sarada, Mr. Niranjana 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)	FY18 (A)	FY19 (P)
Total operating income	1.82	158.03
PBILDIT	0.41	4.86
PAT	0.06	1.76
Overall gearing (times)	2.98	8.01
Interest coverage (times)	1.97	3.07

A: Audited; P: Provisional

**About the Guarantor - Gagan Ferrotech Limited**

Incorporated in 1993, Gagan Ferrotech Ltd (GFL; erstwhile Gagan Commodities Pvt. Ltd.) is promoted by Shri 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 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 1, 38,600 MTPA, billets of 2, 64,000 MTPA, TMT bars of 1, 50,000 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)	FY18 (A)	FY19 (P)
Total operating income	843.86	925.23
PBILDT	33.44	54.88
PAT	7.05	23.73
Overall gearing (times)	0.81	0.54
Interest coverage (times)	4.68	5.96

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

**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	9.90	CARE BBB (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	38.00	CARE BBB (SO); Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.25	CARE A3 (SO)
Fund-based - LT-Proposed fund based limits	-	-	-	0.00	Withdrawn

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	9.90	CARE BBB (SO); Stable	-	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 (SO); Stable	-	1)Provisional CARE BBB (SO); Stable (26-Nov-18)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A3 (SO)	-	1)Provisional CARE A3 (SO) (26-Nov-18)	-	-
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name - Mr. Abhishek Khemka  
Group Head Contact no.-(033) 4018 1610  
Group Head Email ID- [abhishek.khemka@careratings.com](mailto:abhishek.khemka@careratings.com)

### Business Development Contact

Name: Lalit Sikaria  
Contact no. : 033 – 4018 1607  
Email ID: [lalit.sikaria@careratings.com](mailto:lalit.sikaria@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**