Gajanan Iron Private limited

December 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	9.56 (9.90)	**CARE BBB (CE); Stable [Triple B (Credit Enhancement); Outlook: Stable]**	**Reaffirmed**
Long term Bank Facilities-Cash Credit	38.00	**CARE BBB (CE); Stable [Triple B (Credit Enhancement); Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities-Bank Guarantee	1.25	**CARE A3 (CE) [A Three (Credit Enhancement)]**	**Reaffirmed**
Total@	**48.81 (Rupees Forty-Eight Crore and Eighty-One Lakhs only)**		

*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.

Unsupported Rating[2]	**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 bank facilities

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.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 GFL continues to derive 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.

Detailed Rationale & Key Rating Drivers of Gajanan Iron Private Limited (GIPL, for unsupported rating

The rating assigned to the bank facilities of Gajanan Iron Private Limited (GIPL) continues to draw strength from the experienced promoters, favorable plant location, successful commissioning of plant marked by satisfactory operational performance and Satisfactory financial performance in FY19 (refer to the period from April 01 to March 31).

The ratings are, however, constrained by small scale of operation, profitability susceptible to volatility in the prices of raw materials, working capital intensive nature of operations, leveraged capital structure marked by moderate debt protection matrix and inherent cyclical nature of steel industry.

Rating Sensitivities (GFL)

Positive Factor

- The ability of the company to improve its scale of operations while maintaining the operating margins at the current level (i.e. 6.1%).

Negative Factor

- Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators
- Any substantial decline in capacity utilization (i.e. more than 15%) and operating profit margin below 4%

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

[2]*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).*

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.

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 ~10% in FY19, primarily driven by higher realizations coupled with higher quantity sale which is attributable to increase in domestic steel demand. PBILDT margin improved from 3.96% in FY18 to 6.10% in FY19 on the back of higher sales realization coupled with overall improvement in the production efficiency. Accordingly, PAT level and margin also improved in FY19 and GCA continued to remain comfortable at Rs.42.52 cr. in FY19 vis-à-vis debt repayment obligation of Rs.6.25crore in FY19. Overall gearing and Total debt/GCA improved from 0.81x and 8.94x as on March 31, 2018 to 0.51x and 4.36x as on March 31, 2019 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. GFL has successfully commenced the rolling mill in July 2019 which was commissioned at ~Rs.41crore. Further, GFL is also taking up the expansion of sponge iron capacity along with captive power plant. The project is funded through the mix of debt-equity. The promoters' have infused equity of Rs.68.25crore in FY19 to fund its ongoing capex plans. Till September 30, 2019 GFL has already expended ~Rs.113crore (i.e. 85% of total project cost of Rs.133.00crore) and the expansion is expected to be completed by March 2020 (revised from December, 2019).

Inherent 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.

Liquidity profile of Gagan Ferrotech Limited: Adequate

Adequate liquidity characterized by sufficient cushion in accruals (GCA of Rs.42.52crore) vis-à-vis repayment obligations (Rs.6.25crore) in FY19. Its bank limits are utilized to the extent of ~50% only during the last 12 months till Sep 2019, supported by above unity current ratio. Further, operating cycle in FY19 (i.e. 71 days) remained largely in line with FY18.

Analytical approach: Guarantor's assessment

Credit Enhancement in the form of unconditional and irrevocable letter of comfort has been provided by Gagan Ferrotech Limited which is backed by a copy of board resolution.

Industry Outlook

Finished steel production growth is likely to decelerate to 3%-4% during the year FY20 on a y-o-y basis. This is because no major capacity is expected to come up from large steel players while the small steel players are estimated to increase their output at a rate similar to last year. India's steel consumption is expected to grow by 5%-6% on the back of government's expenditure towards infrastructure and construction. Also, likely recovery in automotive industry during H2FY20 is expected to provide some support to the flat steel products' prices sequentially. The price increase going forward however is expected to be moderate. Resultantly, the prices of flat products are expected to decline by 4%-5% and that of long products are likely to fall at a slower pace of 2%-3% during FY20 on a yearly basis.

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy of Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Rating Credit Enhanced Debt]

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 3, 01,800 MTPA (enhanced from 1, 50,000 MTPA in Q2FY20) 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 (A)
Total operating income	843.86	926.54
PBILDT	33.44	56.54
PAT	7.05	23.03
Overall gearing (times)	0.81	0.51
Interest coverage (times)	4.68	6.14

A: Audited

About the Company - 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)	FY18 (A)	FY19 (A)
Total operating income	1.86	158.16
PBILDT	0.44	5.37
PAT	0.06	1.94
Overall gearing (times)	NM	8.01
Interest coverage (times)	NM	3.35

A: Audited; NM-Not Meaningful

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	9.56	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 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	9.56	CARE BBB (CE); Stable	1)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 (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 (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	-	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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.

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