

Press Release
Gagan Ferrotech Limited

September 24, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 345.00 Cr.
Long Term Rating	ACUITE A- / Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 345.00 crore bank facilities of Gagan Ferrotech Limited (GFL). The outlook is "**Stable.**"

Incorporated in 1993, Gagan Ferrotech Limited (formerly, Gagan Commodities Private Limited) is a Kolkata based company promoted by Mr. Vinay Kumar Agarwal and Mr. Deepak Agarwal. In 2016, the entire stake of Mr. Deepak Agarwal in GFL was taken over by Mr. Vinay Kumar & family after a mutual agreement. Currently, the day to day affairs are managed by Mr. Vinay Kumar Agarwal. The company was trading in coal till 2006 after which they ventured into manufacturing activities by setting up a sponge iron plant at Asansol (West Bengal). Over the years, GFL forward integrated its operation by setting up a billet, rolling mill and a captive power plant. The present capacity of GFL stands at 1,38,600 MTPA for sponge iron, 2,64,000 MTPA for billets and 1,50,000 MTPA for rolling mill (TMT bars and wire rods). In addition, the company has a captive power plant of 12 MW. The TMT bars and wire rods are sold under the brand name 'Gagan'.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Mr. Vinay Kumar Agarwal has over two decades of experience in the iron and steel business through his previous stints. GFL ventured into manufacturing process in 2006 by setting up a sponge iron plant and over the years has fully integrated into billet, TMT and captive power plant. Further, the long track record has helped the company to build a healthy relationship with the customers and suppliers which have resulted in stable business risk profile.

Established player in eastern India

The company has a long track record of over a decade in the iron and steel industry. The long track record has helped the company to position itself among the established players in the eastern market. Currently, GFL is selling its TMT Bars in the eastern parts of India in the states of West Bengal, Jharkhand and Assam. In addition, the company is exporting ~10 percent of the TMT bars to Nepal, Bangladesh and Sri Lanka. The company has nearly 200 dealers at present in the above mentioned states. GFL is selling its TMT bars under the brand name "Gagan". The established presence is also reflected from the revenue of Rs.841.48 crore in FY2018 as against Rs.759.73 crore in FY2017. Also during the current year, the company has clocked revenue of Rs.359 crore for four months ended July 2018 (provisional). Acuite believes that GFL's business risk profile will be supported by its established position in eastern India supported by its brand presence.

Robust financial risk profile

The robust financial risk profile of the GFL is marked by its healthy net worth, comfortable gearing and debt protection metrics. The net worth stood at healthy levels of Rs.321.94 crore as on 31 March, 2018 as against Rs.304.75 crore in the previous year. To arrive at the net worth, Acuité has considered Rs.44.00 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to banks. Debt equity stood comfortable at 0.40 times as on 31 March, 2018 as compared to 0.23 times in the previous year. The gearing ratio has remained at less than unity in the past three years ended 31 March, 2018.

The interest coverage ratio and DSCR stood healthy at 4.68 times and 3.50 times in FY2018 as compared to 3.34 times and 2.05 times respectively in FY2017. The NCA /TD stood at 0.17 times in FY2018 as compared to 0.28 times in FY2017. Total debt of ~ Rs.130.00 crore as on 31 March, 2018 consists of long term loan of Rs. 0.15 crore, Rs.29 crore of unsecured loans from promoters and Rs.101 crore of short term working capital facilities. Going forward, Acuité believes the financial risk profile to remain healthy over the medium term despite the undergoing significant debt-funded capital expenditure, supported by steady cash accruals.

Moderate working capital cycle

The working capital cycle is moderate marked by Gross Current Asset (GCA) days of 117 in FY2018 and FY2017 respectively. The moderate GCA days are on account of debtor days of 48-60 during the period under review (FY2016-2018). GFL on an average provides credit period of 30-75 days to its customers. The inventory is generally maintained between 60-90 days for its raw materials such as coal, while ~ 30 days for iron ore and 10 days for its finished products in the form of sponge iron, billet and TMT bars. The raw materials are majorly procured on advance terms from the suppliers. Further, the moderate working capital intensity is reflected from the low utilisation of ~ 47 percent of its working capital facilities of Rs.150 crore during the 12 month ended July 2018.

Weaknesses

Debt funded capex plan

GFL is currently undertaking a capex of Rs.174 crore to enhance its capacity which will increase its installed capacity for sponge iron, billets and TMT bars. In addition they will set up captive power plant of 8 MW. The capacity addition in TMT bar segment is completed. Of Rs.174.00 crore, the company has incurred ~Rs.44.00 crore from its own fund. The project once implemented will benefit in cost saving as sponge iron and billets would be produced in-house for captive consumption without any significant requirement for open market procurement. Acuité expects the financial risk profile to remain strong despite the ongoing debt funded capex given the company's healthy cash accruals. However, Acuité believes that the timely completion of the capex and ramping up of operations from the enhanced capacity will be a key rating sensitivity.

Intense competition and inherent cyclicality in the steel industry

GFL is exposed to intense competition from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Also, prices of major raw material like iron ore, pellet, dolomite, coal which are required for manufacturing of sponge iron are volatile in nature. Any adverse movement of the raw material prices is likely to impact the profitability metrics.

Outlook: Stable

Acuité believes that GFL will maintain 'Stable' outlook over the medium term from its established position in eastern India and the promoter's long standing experience in the steel and iron industry. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement. Further, delay in completion of the capex undertaken leading to cost overrun may also entail a 'Negative' outlook.

Analytical Approach:

Acuite has taken a standalone view of the business and financial risk profile of GFL to arrive at the rating.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	841.48	759.73	780.67
EBITDA	Rs. Cr.	32.29	30.84	31.41
PAT	Rs. Cr.	7.05	4.84	3.07
EBITDA Margin	(%)	3.84	4.06	4.02
PAT Margin	(%)	0.84	0.64	0.39
ROCE	(%)	4.17	4.31	9.59
Total Debt/Tangible Net Worth	Times	0.40	0.23	0.38
PBDIT/Interest	Times	4.68	3.34	2.28
Total Debt/PBDIT	Times	2.62	2.23	3.25
Gross Current Assets (Days)	Days	117	117	128

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	116.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	155.00	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	74.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

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