

Press Release

Gagan Ferrotech Limited

January 07, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	93.75		ACUITE A1 Assigned
Bank Ratings Loan	294.75	ACUITE A+ Stable Assigned	
Total	388.50	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A+** (read as **ACUITE A plus**)' and short term rating of '**ACUITE A1** (read as **ACUITE A one**)' to the Rs. 388.50 Cr bank facilities of Gagan Ferrotech Limited (GFL). The outlook is '**Stable**'.

The rating on Gagan Group takes into account its strong business position as reflected from its integrated nature of operations in the steel sector and a strong brand presence in the TMT segment. Further, it is also supported by the management's long track record in the sector, healthy financial position characterized by negligible debt and robust debt coverage indicators and moderate working capital management. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the Company

Incorporated in 1993, Gagan Ferrotech Ltd. (GFL) is the flagship entity of the Gagan Group. GFL is promoted by Mr. Vinay Kumar Agarwal and family. The company was initially engaged in trading of coal. Since 2006, it ventured into the production of sponge iron and thereafter forward integrated through setting up of billets and rolling mills. Currently, the manufacturing unit of GFL is located at Asansol with an integrated steel manufacturing facility for sponge iron, billet, TMT bars and wires with capacity of 243,000 MTPA, 330,000 MTPA and 294,000 MTPA respectively. In addition, the company also has a captive power plant of 20 MW. 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 also exports to Nepal, Bangladesh and Sri Lanka. The company has nearly 500 dealers at present in the above mentioned states. The TMT bars and wires are sold under the brand name "Gagan".

About the Group

The Group consists of 3 more entities namely Gajanan Iron Pvt. Ltd. (GIPL), Shakambhari Overseas Trades Pvt. Ltd. (SOTPL) and Spintech Tubes Pvt. Ltd. (STPL). GIPL was incorporated in 2005 and is engaged in manufacturing of MS Angles (96,000 MTPA). SOTPL is engaged in manufacturing of MS Ingots (46,200 MTPA) and Industrial Gases (3,240,000 Cubic Meter). STPL was incorporated by the Gagan Group in February, 2017 for setting up an integrated manufacturing unit at Jamuria, West Bengal. STPL currently has undertaken a project for setting up a pellet plant (600,000 MTPA), a sponge iron plant (150,000 MTPA), a steel production unit (180,000 MTPA), a Rolling mill (180,000 MTPA) and captive power plant of 20MW. Expected commercial operational date of the project is April, 2024.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Gagan Ferrotech Ltd (GFL), Gajanan Iron Pvt. Ltd. (GIPL), Shakambhari Overseas Trades Pvt. Ltd. (SOTPL) and Spintech Tubes Pvt. Ltd. (STPL) together referred to as the 'Gagan Group' (GG). The consolidation is in the view of common promoters and management, intercompany holdings, operational linkages between the entities and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The Gagan Group has been in the iron and steel industry for over two decades. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. Further, the key promoter of the Group, Mr. Vinay Kumar Agarwal has an experience of more than two decades in the iron and steel industry. Acuité derives comfort from the long experience of the promoters.

- **Strong business risk profile supported by integrated nature of operations and locational advantage**

The strong business risk profile of the Group is supported by the integrated nature of operations of the flagship entity, GFL; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. Also, the consolidated revenue have increased to Rs.1241.20 Cr in FY2021 as compared to revenues of Rs.1132.81 Cr in FY2020, thereby registering a growth of 9.57 per cent. Acuité believes that the sustainability in the revenue growth would be a key monitorable going forward.

In addition to this, the Group has a locational advantage as the plants are located in the industrial area of Durgapur, West Bengal, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

Acuité believes that the Gagan Group's business risk profile would remain strong and its scale of operations would improve over the medium term backed by their domain expertise and capacity additions.

- **Healthy financial risk profile albeit with significant capex plans**

The Group's financial risk profile is marked by healthy networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the Group increased to Rs.751.40 Cr as on March 31, 2021 from Rs.640.77 Cr as on March 31, 2020 due to a healthy accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.84 Cr as on March 31, 2021 as part of networth as these loans are subordinated to bank debt. Gearing of the Group stood comfortable at 0.23 times as on March 31, 2021 as against 0.47 times as on March 31, 2020. The debt of Rs.176.47 Cr primarily consists of working capital from the bank of Rs.112.58 Cr, as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) also stood healthy at 0.38 times as on March 31, 2021 as against 0.62 times as on March 31, 2020. The strong debt protection metrics of the Group is marked by Interest Coverage Ratio at 6.76 times as on March 31, 2021 and Debt Service Coverage Ratio at 2.49 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.42 times as on March 31, 2021.

Recently, in order to increase the value chain and improve profitability, the Group had undertaken planned capex in Shakambhari Overseas Trades Pvt. Ltd by installing a foundry division thereby resulting in a competitive advantage over other players growing forward. The total cost of the project is Rs. 48.51 Cr, which has been funded from Rs.24.51 Cr of internal accruals and Rs.24 Cr of term loan. The commercial operational date is March, 2022. Further, Spintech Tubes Pvt. Ltd. (STPL) currently has undertaken a project for setting up a pellet plant (600,000 MTPA), a sponge iron plant (150,000 MTPA), a SMS (180,000 MTPA), a Rolling mill (180,000 MTPA) and captive power plant of 20MW. The total estimated cost of the project is

Rs. 790 Cr, which will be funded from Rs.335 Cr of promoters' contribution and Rs.455 Cr of term loan. The commercial operational date is April, 2024.

Acuité believes that going forward the financial risk profile of the Group will remain healthy over the medium term, despite the planned capex in Spintech Tubes Pvt. Ltd. (STPL).

- **Moderate working capital management**

The working capital management of the Group is moderate marked by Gross Current Assets (GCA) of 123 days on 31st March 2021 as compared to 158 days on 31st March 2020. The moderate level of GCA days is on account of moderate inventory levels which stood at 63 days on 31st March 2021 as compared to 85 days as on 31st March 2020. However, the debtor period stood comfortable at 33 days on 31st March 2021 as compared to 46 days on 31st March 2020. Acuité believes that the working capital operations of the Group will remain stable as evident from efficient collection mechanism and moderate inventory levels over the medium term.

Weaknesses

- **Intense competition and inherent cyclical nature of the steel industry**

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivities

- Sustainability in revenue growth and margins
- Elongation of working capital cycle
- Timely completion of the ongoing capex

Material covenants

None

Liquidity Position: Adequate

The Group's liquidity is adequate marked by steady net cash accruals of Rs.73.84 Cr as on March 31, 2021 as against long term debt repayment of Rs.20.04 Cr in FY21. The current ratio stood comfortable at 2.13 times as on March 31, 2021 as compared to 1.26 times as on March 31, 2020. The fund based limit remains utilised at 45 per cent, on an average, over the twelve months ended August, 2021. The cash and bank balances of the Group stood at Rs.5.94 Cr as on March 31, 2021. However, working capital management of the Group is moderate marked by Gross Current Assets (GCA) of 123 days in 31st March 2021 as compared to 158 days in 31st March 2020. Acuité believes that going forward the Group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the Group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, healthy financial risk profile and moderate working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the Group's revenues or profit margins, or in case of deterioration in the Group's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1241.20	1132.81
PAT	Rs. Cr.	47.30	31.06
PAT Margin	(%)	3.81	2.74
Total Debt/Tangible Net Worth	Times	0.23	0.47
PBDIT/Interest	Times	6.76	5.17

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Apr 2021	Letter of Credit	Short Term	25.50	ACUITE A4+ (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	30.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	25.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	20.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	50.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	11.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Letter of Credit	Short Term	24.00	ACUITE A4+ (Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	20.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	44.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Letter of Credit	Short Term	9.50	ACUITE A4+ (Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	36.00	ACUITE BB (Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	30.00	ACUITE BB (Withdrawn and Issuer not co-operating*)

12 Feb 2021	Cash Credit	Long Term	155.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	116.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	74.00	ACUITE A4+ (Issuer not co-operating*)
05 Dec 2019	Cash Credit	Long Term	155.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	74.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	116.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
24 Sep 2018	Cash Credit	Long Term	155.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	116.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	74.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A1 Assigned
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A1 Assigned
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A+ Stable Assigned
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A+ Stable Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A+ Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A+ Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A+ Stable Assigned
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A1 Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE A1 Assigned
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.50	ACUITE A1 Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A1 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ Stable Assigned
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	16.31	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	11.25	ACUITE A+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	17.19	ACUITE A+ Stable Assigned

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About Acuité Ratings & Research

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