

Rating Update

June 21, 2019 | Mumbai

Gallantt Ispat Limited

Update as on June 21, 2019

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

- Scale of operations and operating margin
- Integration of operations
- Debt-funded capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from Gallantt Ispat Limited (GIL) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the company

Incorporated in 2005 in Gorakhpur, Uttar Pradesh, and promoted by Mr Chandra Prakash Agrawal, GIL is a public limited company listed on the Bombay Stock Exchange and National Stock Exchange. The company with its fully integrated operations manufacturers TMT bars under the Gallant brand and also operates a flour mill.

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Rating Rationale

April 05, 2018 | Mumbai

Gallantt Ispat Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.128 Crore
Long Term Rating	CRISIL BBB-/Stable
Short Term Rating	CRISIL A3

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities of Gallantt Ispat Limited (GIL; part of GIL group) continues to reflect the established presence of GIL in the steel industry, comfortable financial risk profile, and sufficient liquidity. These strengths are partially offset by the geographical concentration risk in revenue, volatility in operating margins and demand risks related to the recent capacity expansion undertaken by the group.

On Mar 27, 2018, CRISIL had assigned its 'CRISIL BBB-/Stable' rating on the bank facilities of GIL.

Analytical Approach

CRISIL has consolidated the business and financial risk profile of Antarmukh Steel Manufacturer Pvt Ltd, Bhavika Smelters and Food Products Pvt Ltd, Shrinu Rolls and Milling Pvt Ltd and Satlaj Rolls and Milling Pvt Ltd with GIL, together referred to as Gallantt group, as the 4 companies are under merger process and will be merged with GIL once all the regulatory formalities are completed.

Key Rating Drivers & Detailed Description

Strengths:

* **Established presence in the industry:** Though GIL was incorporated in 2005, it is a part of the Gallantt group that has been in the steel business since 1984. The group operates a primary steel plant and own private railway siding in Uttar Pradesh and has an established presence in the steel industry with its Gallant brand. The GIL group has expanded capacities and also benefits from the integrated operations with captive power consumption.

* **Comfortable financial risk profile:** Large network of Rs 511 crore led to a strong gearing of 0.3 time, as on March 31, 2017. Further, despite availing of term loan of Rs 30 crore during fiscal 2018, gearing is expected to remain steady. Though the term loan will have a bearing on interest coverage ratio, it will remain healthy at 10-13 times. Also, the proposed capex of Rs 510 crore is expected to happen in a granular manner after 2 to 3 years, thereby providing stability to the financial risk profile over the medium term.

* **Adequate liquidity:** The accruals over and above repayments will aid the growing working capital requirements. As against the annual accruals of Rs 60-80 crore, the repayments are likely to remain in the range of Rs 8-10 crore per year, thereby providing cushion to the liquidity.

Weaknesses

* **Geographical concentration in revenue:** Since majority of revenue comes from Uttar Pradesh, business risk profile will remain exposed to any downturn or political disturbance in that state.

* **Volatile operating profitability:** Changing steel prices have led to fluctuations in operating margin to 12.3% in fiscal 2017 from 9.8% in fiscal 2016 and 10.4% in fiscal 2014. However, fully integrated operations and installation of private railway siding for easy movement of raw material and finished goods have led to lower logistic costs, which will improve profitability over the medium term.

* **Demand risk from the expanded capacities:** The group has expanded its sponge iron, ingot manufacturing and rolling mill capacities in fiscal 2018 and hence is expected to face demand risk for the sales of the rolling products since it is majorly present in Uttar Pradesh. However, the strong brand positioning under the Gallant brand will aid the sales over the medium term.

Outlook: Stable

CRISIL believes that the GIL group will continue to benefit over the medium term from the extensive experience of its promoter and fully integrated operations. The outlook may be revised to 'Positive' if more-than-expected increase in revenue and profitability improves business risk profile, while maintaining working capital cycle. The outlook may be revised to 'Negative' if revenue and profitability deteriorate, or sizeable debt-funded capital expenditure affects financial risk profile.

About the Company

Incorporated in 2005 in Gorakhpur, Uttar Pradesh, and promoted by Mr Chandra Prakash Agrawal, GIL is a public limited company listed on the Bombay Stock Exchange and National Stock Exchange. The company with its fully integrated operations manufactures TMT bars under the Gallant brand and also operates a flour mill.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs crore	430	535
Profit after tax (PAT)	Rs crore	44	29
PAT margin	%	10.3	5.3
Adjusted debt/adjusted networkth	Times	0.3	0.4
Interest coverage	Times	12.3	6.9

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	50	CRISIL BBB-/Stable
NA	Long term loan	NA	NA	Mar-2023	30	CRISIL BBB-/Stable
NA	Letter of credit	NA	NA	NA	40	CRISIL A3
NA	Bank Guarantee	NA	NA	NA	6	CRISIL A3
NA	Proposed Non fund based limits	NA	NA	NA	2	CRISIL A3

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	80	CRISIL BBB-/Stable	27-03-18	CRISIL BBB-/Stable		--		--		--	--
Non Fund-based Bank Facilities	LT/ST	48	CRISIL A3	03-04-18	CRISIL A3		--		--		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	6	CRISIL A3	Bank Guarantee	6	CRISIL A3
Cash Credit	50	CRISIL BBB-/Stable	Cash Credit	50	CRISIL BBB-/Stable
Letter of Credit	40	CRISIL A3	Letter of Credit	56	CRISIL A3
Long Term Loan	30	CRISIL BBB-/Stable	Long Term Loan	14	CRISIL BBB-/Stable
Proposed Non Fund based limits	2	CRISIL A3	Proposed Non Fund based limits	2	CRISIL A3
Total	128	--	Total	128	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p> <p>Jyoti Parmar Media Relations CRISIL Limited D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com</p>	<p>Nitin Kansal Director - CRISIL Ratings CRISIL Limited D:+91 124 672 2154 nitin.kansal@crisil.com</p> <p>Himank Sharma Associate Director - CRISIL Ratings CRISIL Limited D:+91 124 672 2152 Himank.Sharma@crisil.com</p> <p>Gaurav Arora Rating Analyst - CRISIL Ratings CRISIL Limited B:+91 124 672 2000 Gaurav.Arora@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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Last updated: April 2016

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