



Press Release

Gajkesari Steel and Alloys Private Limited (GSAPL)

March 31, 2021

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Term Loan	37.66	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
Long Term Fund Based Bank Facilities – Cash Credit	30.00	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
Short Term Non-Fund Based Bank Facilities – Bank Guarantee	5.00	IVR A3 (IVR Single A Three)	Assigned
Proposed Long Term Fund Based Bank Facilities – Term Loan	72.34	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
Proposed Long Term Fund Based Bank Facilities – Cash Credit	50.00	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
Proposed Short Term Non-Fund Based Bank Facilities – Bank Guarantee	5.00	IVR A3 (IVR Single A Three)	Assigned
Total	200.00		

Details of Facilities are in Annexure 1

Detailed Rationale:

The aforesaid ratings assigned to the bank facilities of Gajkesari Steel and Alloys Private Limited (GSAPL) derives strength from experienced management and long track record of operations, locational advantage, geographical presence, partly integrated nature of operation; proposed capex to provide economies of scale, Y-o-Y growth in revenue & volume, Healthy financial risk profile. The rating however is constrained by working capital intensive nature of operations, risk associated with volatility in the raw material prices, Intense competition and cyclicity in the steel industry.



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Positive outlook reflects revival of domestic steel sector in second quarter of 2020-21, the momentum has strengthened further in December quarter. The cumulative domestic steel demand in October-November has already surpassed the pre-COVID-19 levels.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.

Downward Factors

- Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced management and long track record of operations:

Promoters are well experienced in manufacturing steel products and trading steel scrap. They have an established track record of setting up and implementing the projects within scheduled timeline. Promoters possesses over a decade of experience in steel trading and manufacturing. TMT bars produced in the rolling mill are marketed under brand name of "Gajkesari". Promoters are supported by a team of experienced and qualified professionals also.

Locational advantage:

The manufacturing facility is located at Jalna, Maharashtra, where there is ample availability of raw material like MS Scrap and Sponge Iron. Further, the manufacturing facility of the company is well connected through road/rail. A Dry Port has been declared in Jalna which is just 5 Km from the Factory. This will facilitate for Import and Export and widen the opportunity for Foreign Trade.

Geographical Presence:

The company manufactures & sells Mild steel (MS) billets and Thermo mechanically treated (TMT) bars. The products manufactured by the company find end use in infrastructure & real



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estate. The company sells its products in Maharashtra, Karnataka, Gujarat, Madhya Pradesh, Rajasthan, Telangana, etc.

Partly integrated nature of operation; proposed CAPEX to provide economies of scale:

At present, the Company manufactures TMT bars and MS Billets by using metal scrap and sponge iron as its raw material, with an installed capacity of 1,10,000 MTPA for steel melting and a Rolling Mill capacity of 1,10,000 MTPA. Moreover, as a backward integration, the Company is to set up a scrap processing yard and billet yard with a capacity of 1,50,000 MTPA which will enable segregation of the scrap properly. The company also proposes to set up an additional Steel Rolling Plant of 1,30,000 MTPA, to match up with this capacity company proposes to set up additional pair of furnaces of 30 MT and 132 KVA line to reduce the power cuts and the expenses on the repairs and maintenance and will bring down the cost of production. The total project cost of INR100 Crore, proposed to be funded by way of term loan of IN70 Crore and remaining of INR30 Crore from promoters' contribution by way of additional long-term funds (Equity & USL) and internal accruals.

The incremental benefits of the capex will start from FY22. There will be overall improvement in the company operational and financial parameters from FY22 onwards.

Y-o-Y growth in revenue & volume:

The total income of the company remained progressive over the past three fiscal years ended FY20. After witnessing a CAGR of ~ 19% on the back of increase in sales volume attributable with increase average realization. The overall production improved in FY20 as compared to FY19 and will improve further in FY21 and FY 22 with increase in demand for the products. The total capacity utilization improved to 73% in FY20 from 50% in FY19. Y-o-y improved capacity utilisation also leads in improvement in operating margin as well as profitability.

Healthy financial risk profile:

The financial risk profile of the company is marked by healthy capital structure backed by its healthy net worth and debt protection metrics. The adjusted net worth of company stood at INR48.17 as on 31 March 2020 as against INR42.96 Crore as on 31 March 2019. The overall gearing stood at 1.50x in FY20 (FY19: 1.42x). The Interest Coverage Ratio (ICR)



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slightly improved to 2.63 times for FY2020 (FY19: 2.60x). Total Debt / GCA ratio was at 5.09 times in FY20. TOL/TNW stood at 1.93 times as on 31 March 2020.

Key Rating Weaknesses:

Working capital intensive nature of operations:

The operations are working capital intensive in nature due to low credit periods available with suppliers and adequate holding of inventory. However, due to the Covid-19 lockdown, the company had huge piled up inventory of TMT bars resulting into higher average inventory days of 55 days during FY20 (FY19: 31 days). The creditor period though stood at 28 days during FY20 (FY19: 27 days). The collection period stood at 37 days during FY20 (FY19: 47 days). Therefore, the operating cycle has increased to 64 days during FY20 (FY19: 51 days).

Risk associated with volatility in the raw material prices:

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw material used in the production of Billets and TMT Bars is steel scrap. The company does not have any long-term agreement for procurement of steel Scrap. The company procures most of the scrap from the spot market, thus exposing the company to the volatility associated with the raw material price. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition:

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including GSAPL.

Cyclicality in the steel industry:

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including GSAPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The Company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The cash credit average utilization for the last 12 months ended February 2021 stood at 86.91%. The company has reported a healthy current ratio at 1.43x as on March 2020. The cash & cash equivalent stood at INR 2.29 Crore including Fixed deposits with the banks.

About the Company:

Gajkesari Steels and Alloys Pvt Ltd (erstwhile: Kalika Steel Jalna Pvt Ltd) a TMT bars manufacturing unit located in Jalna was purchased by Mr. Lakhan Agrawal and Mr. Ankush Agrawal in 2017. Post-acquisition of the unit promoters started the Rolling Mill and set up an induction melting furnace of 30 MT as a back ward integration for production of MS Billets which helps in reduction in cost in terms of eliminating reheating of Billets and reduction in Burning Loss.

The TMT bars produced in the rolling mill are sold under Brand name of “Gajkesari”.

Financials: Standalone

(INR Crore)

For the year ended/ As On	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	239.81	282.76
EBITDA	7.15	23.28
PAT	0.38	1.80
Total Debt	61.06	72.12
Tangible Net-worth	30.53	32.28
Ratios		
EBITDA Margin (%)	2.98	8.23
PAT Margin (%)	0.16	0.63



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Overall Gearing Ratio (x)	1.42	1.50
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Status of non-cooperation with previous CRA: Nil

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Bank Facilities – Term Loan	Long Term	37.66	IVR BBB-/Positive	--	--	--
2.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	30.00	IVR BBB-/Positive	--	--	--
3.	Short Term Non-Fund Based Bank Facilities – Bank Guarantee	Short Term	5.00	IVR A3	--	--	--
4.	Proposed Long Term Fund Based Bank Facilities – Term Loan	Long Term	72.34	IVR BBB-/Positive	--	--	--
5.	Proposed Long Term Fund Based Bank Facilities – Cash Credit	Long Term	50.00	IVR BBB-/Positive	--	--	--



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6.	Proposed Short Term Non-Fund Based Bank Facilities – Bank Guarantee	Short Term	5.00	IVR A3	--	--	--
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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Rushabh Shah

Tel.: (022) 6239 6023

Email: rpsah@infomerics.com

Mr. Amit Bhuwania

Tel.: (022) 6239 6023

Email: abhuania@infomerics.com

About Infomerics:

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Term Loan	--	--	Upto Jul 2026	37.66	IVR BBB-/ Positive
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	30.00	IVR BBB-/ Positive
Short Term Non-Fund Based Bank Facilities – Bank Guarantee	--	--	--	5.00	IVR A3
Proposed Long Term Fund Based Bank Facilities – Term Loan	--	--	--	72.34	IVR BBB-/ Positive
Proposed Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	50.00	IVR BBB-/ Positive
Proposed Short Term Non-Fund Based Bank Facilities – Bank Guarantee	--	--	--	5.00	IVR A3