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THE GALLANT MEN

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COVER STORY

BY STEEL 360 BUREAU

THE GALLANT MEN

The summer sun has already begin to bake the dusty streets of Gorakhpur, sending temperatures in this remote town of Uttar Pradesh beyond 40 degree Celsius, but the sizzling heat hardly seems to perturb Chandra Prakash Agrawal and son Mayank, who just returned from a visit to their steel plant about 20 km away from the city. Chandra Prakash Agrawal who set up the only primary steel production facility in UP under the brand name Gallantt Ispat in Gorakhpur is habituated to the climatic ups and downs and says, "This is home for us". Mayank seems to be of the same opinion.

The town has precious little to be known by other than the highly revered Gorakhnath Math temple and some trading activity. For a major steel producer, this distant town with no access to natural resources would have been the last place to set up an integrated steel plant. Agrawal however, took the road less travelled by and that has made all the difference for Gallantt Ispat which also operates a steel plant in Gujarat.

won linkages at base price. And we don't want to be fighting with players like JSW and Tata Steel for whom securing raw material is a matter of survival.

We have huge demand for Iron Ore presently which is only going to go up and a captive mine could prove to be instrumental in our expansion process. We are keeping a close watch on Orissa and Karnataka as well. Our Gorakhpur unit would be fed from Orissa. On the other hand we are interested in securing mines in Karnataka because we have a pending proposal to establish an integrated steel plant there. We had bought the land and got environmental clearances before the Supreme Court put a ban on iron ore mining. We are now exploring the project more optimistically after possibilities of securing fresh mine leases seem stronger.

The Karnataka project would be taken up under Gallantt Metal Limited, Gujarat because the company would have funds once again within a year and that would have to be utilized. On the other hand Gallantt Ispat Limited is presently not looking to go out of Gorakhpur as we would be undertaking fresh expansion of Rs 500 Crore here which would take the plant capacity to 0.5 mnt. In addition to this, we also plan on setting up a pelletisation plant as part of our backward integration programme.

Q. What makes you so bullish on India steel market?

A. Honestly, I am not so bullish in terms of the Indian steel market, although the industry appears to be on firm ground with the 300 mnt steel production target and the Modi Government's push for infrastructure development. I am rather bullish on my own growth possibilities as our calculations indicate strong returns through expansion. I see no reason why I should not invest on expansion if it would lead to significant cost reduction. Moreover, the fact that I can expand my market share in this part of the country is reason enough for me to be bullish. I also do not see the need to wait for demand to rise, I strongly believe that we are capable of capturing someone else's market as well. UP where we might be having around 15% share is in itself a virgin market for us where we can expand exponentially, if production is increased. We are targeting about 25% market share in UP.

All major steel producers are supplying long products in UP but transporting goods to the state, stocking it etc is a different ball game altogether. On the contrary we have a major advantage with are production facility here itself.

Q. Is the demand for high strength long products low in UP?

A. We have set up a Ladle Refining Furnace which would be commissioned in the next few weeks. We are capable of producing grades up to 550D, however it is difficult to sell such superior grade bars. In fact the demand for 500D and 550D is quite low in other states as well including Gujarat where we are supplying small quantities of 500D. We are the only approved suppliers for Reliance's Jamnagar refinery expansion project. We have also supplied steel for Tata Motor's Nano car project. We are also the approved supplier for Adani. The only reason we have installed the LRF in Gorakhpur is that we have the flexibility to produce a wider range of products in case demand arises. But I do not see that happening any time soon. Till today despite being the only primary steel producer in UP, I don't have a single enquiry for 550D. In fact we can produce high strength bars now also by procuring superior Iron which is readily available but never has there been demand for it.

Q. Do you sell billet or sponge iron?

A. We never sell billet, however, some quantity of Sponge has been sold in the last two months due to synchronisation of the newly installed capacity. Since there are no gaps in production, everything we produce we are capable of consuming.

Q. What was the reason behind Gallantt Ispat's categorization as Shell Company?

A. As per Securities and Exchange Board of India ("SEBI") order dated August 07, 2017 name of our Company was included amongst the list of suspected "331 Shell Companies" and shares of the Company where shifted to Graded Surveillance Measures (GSM) VI category with effect from August 08, 2017. As a result of such order the shares of the Company were restricted from trade since August 08, 2017.

In the interest of the investors, the Company on

November 23, 2017 preferred an Appeal before the Securities Appellate Tribunal ("SAT") to set aside the order of SEBI as above and to normalize the trading in shares of the Company.

In this regard, the SAT after hearing the appeal on November 29, 2017 disposed off the appeal by directing National Stock Exchange (NSE) to pass appropriate order within a period of six weeks from November 29, 2017 and the appeal as above was disposed of by Honourable SAT. During this period of six weeks an Independent Auditor appointed by NSE submitted its report on December 01, 2017 making few observations all of which were satisfactorily addressed by the Company. On December 15, 2017 NSE also granted an opportunity of personal hearing to the Company where the representatives of the Company submitted their representations and successfully answered to the queries raised by the Exchange officials.

Since SEBI vide its letter delegated powers to stock exchanges to perform direct fact finding exercise and dispose of the representations received by them directly from the Company, NSE based on such powers conferred to it by SEBI has revoked the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) against Gallantt Ispat Limited, its Promoters and Directors.

Company no longer falls under the list of suspected "Shell Companies" and trading in shares normalized with effect from January 01, 2018. The Company placed on record its appreciation towards SEBI, NSE and BSE for revoking its earlier order dated August 07, 2017 regarding suspected shell Company.

Q. Real estate has also emerged as one of Gallantts focal points?

A. We have already built a 500 flat complex in the heart of Lucknow which is on the verge of completion. Phase two of the tower is under construction. However, we are looking at fresh ventures in Real Estate and we are also keen to utilize our existing land bank at Gorakhpur.

Q. We would like to know about the beginning of Gallantt, about the challenges that you faced back then and your journey this far? (CP Agrawal)

A. The group began in 1984, with an investment of Rs.5.00 lakh in an oil extraction plant. I had struggled for months to secure the loan. Fortunately, we were able to expand over the next ten years with 4 flour mills. We then ventured in to steel with a small induction furnace. The real challenge came during 2005 to 2010 when we set up the Gujarat plant in 2005 and Gorakhpur in 2008. We have worked day in and day out during that time to pay back debt and stabilize business operations. Presently the group is running two primary steel Plants with Captive Power Plant in the state of Uttar Pradesh in the name of Gallantt Ispat Limited and in Gujarat in the name of Gallantt Metal Limited. Both these companies are listed on both the premier stock exchanges of India viz. Bombay Stock Exchange Limited and National Stock Exchange. Combined together of both these units, our captive power plant capacity is 88.50 MW, DRI 522000 MT, SMS 587400 MT and Rolling Mill (TMT Bars) 580000 MT annually. Both these units are fully integrated.

Q. What was the reason behind setting up a plant in Gorakhpur despite the region having neither mines nor port access for importing raw material? (CP Agrawal)

A. Gorakhpur, being our home town, was always close to my heart. I have been interacting with people in developed cities like Delhi, Ahmedabad, Mumbai etc wherein people used to know of Uttar Pradesh, specially Purvanchal region, for all the wrong reasons; i.e. unemployment, poverty and a hub of criminal activities. I always thought how to change this thinking which people have about my city how it can be developed. I came across a lot of people from this region working outside U.P. and making huge contribution to the development of the nation. It made me think that if everybody who is capable of bringing this change leaves this place and starts working elsewhere, then who is going to come forward to develop this place? Why will an outsider who does not belong to this region think of developing it? We, the people who live in this region, are responsible to take initiatives and do something for the region and only then any change can happen. This belief was always a driving factor in my mind. This made me focus on how a steel plant can be viable in this area which can add to the development here. I am happy to state that our Gorakhpur Unit was installed in the year 2009 and within a short span of 9 years we were able to pay off the entire term loan of Rs.156 crores to State Bank of India which was due for repayment in 2016, was repaid in 2014 itself; though this period has been considered as a tough one for the steel industry.

Thereupon, this unit has been a continuous spree of expansions and today we have fixed assets worth Rs.650 crores (Original Rs.350 Cr + Expansion Rs.300 Cr.) whereas our term loan is just Rs.30 crores and cash credit limit of Rs.50 Crores. I strongly believe that 'where there is a will, there is a way'.

Q. What will be your Iron ore demand by 2020?

A. Our total requirement of Iron ore for Gorakhpur Unit shall be 410000 mnt and Gujarat Unit shall be 568000 MT. Thus combined together the total iron ore quantity shall be 9,78,000 MT. We shall definitely be looking for bidding of suitable captive mines as and when the Government auctions the same.

Q. What expectation do you have from the policy makers with regard to Iron supply and the steel industry at large? Do you see the 300 mnt steel production target achievable?

A. Steel industry has been suffering badly from past many years due to scarcity of iron ore and coal which was caused by various iron ore and coal mines cancellations by the Hon'ble Supreme Court of India followed by various policy changes by Govt. of India. Govt. needs to expedite and ensure fast implementation of their policies so that sufficient availability of both the raw materials are ensured which would enable the demand and supply forces to play its part and thereby keeping the raw material prices in check and relative to finished steel prices and at the same time reduce imports to save Forex of the country. Scarcity of Railway rakes, which plays a vital role in transportation of these raw materials, is also one of the issues which needs to be taken up by the Govt. The Govt. is currently focusing on enhancement of sea transport facilities across various regions by developing various sea ports and connecting low tide areas with barges. This can bring around a big change in terms of cost effectiveness in transportation of raw materials as well as finished products as sea transport is the cheapest means of transport. Govt. needs to implement this on priority. 300 mnt target seems to be a distant dream for India, unless it is backed by fast actions and implementation of various policies of the Govt. to overcome the challenges faced by the industry.

Q. What are the trends in demand in UP?

A. U.P. is a fast growing economy wherein lot of development activities are being initiated by Government as well as private sector which has resulted into good demand for all types of steel products. Also U.P. has a population of 22 crore with a per capita consumption of steel as one of the lowest in the country. As such, there is a huge potential in the region.

Q. What is your expansion plan?

A. At Gorakhpur, we have currently doubled our capacity in SMS and Rolling 162000 MT to 330000 MT per annum and tripled our capacity of sponge iron from 99000 MT to 297000 MT and also tripled CPP from 18 MW to 55.50 MW with an investment of Rs.300 Cr. Commercial production for the same has started in December, 2017. Further we have signed an MOU with state Govt. with an investment of 500 Cr for further expansion of the capacities as well as backward integration by installing pelletisation plant.

At Gujarat, we are currently expanding our installed capacities too. Post expansion our group capacity of TMT Bars shall be 9,15,000 MT per annum and sponge iron shall be 8,19,000 MT and CPP shall be 104.50 MW. Post this expansion in Gallantt group; our fixed investment of both these companies together shall be Rs.1700 Crores (approx). We are looking at only TMT bars currently as there is huge demand for the same.

Q. Where do you plan on selling the additional material after capacity expansion?

A. As already said, we have doubled our steelmaking capacity in Dec. 17; post this expansion we have been comfortable to sell our products in eastern U.P. itself and have already captured 30 – 35% of the market where as western and central U.P.is still vacant for us.

Q. What are your forecasts for the steel industry in 2018, 2019 and 2020?

A. Technavio's market research analyst predicts the Indian steel industry to grow at a CAGR of almost 7% by 2020. Developments in the Indian steel industry are primarily driven by the domestic accessibility of cheap labour and iron ore. The focus of the Government remains primarily in the infrastructural development of the country the increase in infrastructure projects will continue to boost the demand for steel products.

The construction sector is the largest end user of steel and is anticipated to occupy more than 35% of the total market share by 2020. The Government targets to produce 300 mnt steel by 2030 to meet steel requirement of the country. With all these positive scenarios, I strongly believe the recession period of the steel industry is over and from here on it will continue to improve.

WHAT WAS YOUR EBITDA PROJECTION FOR Q4 2018 AND FY 2019?

HEAD	GALLANTTT ISPAT		GALLANTTT METAL	
	Projected 2017-18 (Q4)	Projected 2018-19	Projected 2017-18 (Q4)	Projected 2018-19
Profit Before Interest Depreciation and Tax (PBIDT/EBITDA)	3227.06	15282.06	3465	9639.17
Profit Before Depreciation and Tax (PBDT)	3037.74	14142.06	3265	9239.17
Profit Before Tax (PBT)	2408	11187.67	2815	7395.1
TAX	749.73	2387.00	974.27	2558.7
Profit after Tax (PAT)	1658.27	8800.22	1840.72	4836.39