GML/DEL/2022-23
January 11, 2023

Bombay Stock Exchange Limited Floor 25, P J Towers, Dalal Street, Mumbai- 400 001. INDIA. Scrip Code: 532726	National Stock Exchange of India Limited "EXCHANGE PLAZA", Bandra – Kurla Complex, Bandra (East), Mumbai- 400 051. INDIA. Symbol: GALLANTT

Sir/Madam,

SUB: INDIA RATINGS AND RESEARCH (IND-RA) HAS PLACED LONG-TERM ISSUER RATING AT 'IND-A/STABLE' /IND A1

We hereby inform that India Ratings and Research; A Fitch Group Company has affirmed Company's Long-Term Issuer Rating at 'IND-A' Stable. The instrument-wise rating actions are as follows:

Instrument Type	Size of Facilities	Rating/Rating Watch	Rating Action
Fund-based limits	Rs. 300 Crores	IND A/STABLE/IND A1	Affirmed
Non-fund-based limits	Rs. 300 Crores	IND A1	Affirmed
Long Term Loans **(PROPOSED)**	Rs. 150 Crores	IND A / Stable	Assigned

A copy of Press Release is enclosed herewith.

Thanking you,

Yours faithfully,
GALLANTT ISPAT LIMITED
(Formerly Gallantt Metal Limited)

NITESH KUMAR
Digitally signed by NITESH KUMAR
Date: 2023.01.11 12:14:28 +05'30'

Nitesh Kumar
(COMPANY SECRETARY)
M.N. F7496

Encl: As above

India Ratings
& Research
A Fitch Group Company

India Ratings Affirms Gallantt Ispat at 'IND A'/Stable

Jan 11, 2023 | Iron & Steel

India Ratings and Research (Ind-Ra) has affirmed Gallantt Ispat Limited's (formerly Gallantt Metal Limited) (GIL) Long-Term Issuer Rating at 'IND A'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR3,000 (increased from INR500)	IND A/Stable/IND A1	Affirmed
Non-fund-based limits	-	-	-	INR3,000 (increased from INR1,288)	IND A1	Affirmed
Long term loans (proposed)	-	-	-	INR1,500	IND A/Stable	Assigned

Key Rating Drivers

Continued Healthy Credit Metrics: GIL's credit metrics remained healthy in 1HFY23, supported by low external debt and consequently, low interest obligations, with interest coverage (EBITDA/gross interest) of 13.63x (FY22: 14.48x; FY21: 12.39x) and net adjusted leverage (adjusted net debt/EBITDA) of 1.46x on an annualised basis (1.30x; 1.44x). The metrics moderated slightly in 1HFY23 due to higher absolute debt. GIL avails long-term debt by way of interest-free loans from the state government and interest-bearing unsecured loans from body corporates but it has not yet availed any term loans from banks. With the planned capex to be partially funded by debt of around INR1,500 million (yet to be sanctioned), the agency expects the entity to avail external long-term liabilities from banks in FY23. In FY23, GIL has also extended a corporate guarantee to an associate entity for INR825 million; this has been included in the adjusted net debt for Ind-Ra's assessment purposes. Ind-Ra expects the interest coverage to remain above 6.0x in FY23 and beyond. The adjusted net leverage could peak at around 2.25x in FY23; however, despite major debt-led capex, the leverage is likely to decline to below 2.0x from FY24, supported by strong annual cash generation, a likely improvement in the capacity utilisation of enhanced/new facilities and progressive long-term debt repayment.

Gorakhpur Unit Bolsters Business Profile: The Gorakhpur unit offers various cost advantages and the unit also benefits from lower import dependency for raw materials, lesser competition from imports, owing to UP being a land-locked region, partial coal linkages, own railway sidings and nearness to raw material sources compared to the Kutch unit. Furthermore, the Gorakhpur unit operates in different geographical regions, which have different sensitivities to price movements. In addition, the Gorakhpur unit is the only integrated steel plant in northern India and it almost has a monopoly in the state, and thus, has a price advantage. Post the amalgamation of the Gorakhpur unit, GIL's overall EBITDA margins in FY21 were higher than the standalone margins of the Kutch unit despite both the units having similar product profiles. In FY21, while the standalone EBITDA margin of the Kutch unit was 11.02%, the amalgamated EBITDA was 12.79%.

Largely Self-Funded Capex at Gorakhpur unit: GIL has undertaken a large capex of around INR8,821 million (increased from INR6850 million estimated in May 2022 due to increase in scope and escalated input costs) over FY19-FY24 to enhance its integrated thermo-mechanically-treated (TMT) bars capacity by around 60% to 528,000 tonnes per annum (tpa), making it a medium-sized player in the TMT industry. About 83% of the capex is being funded by internal accruals and unsecured loans and the balance would be funded by term loans (INR1,500 million – yet to be sanctioned). The partially enhanced capacities commenced full-fledged operations from April 2022, and the remaining two capacities are likely to be commissioned by April 2023 and April 2024. At end-September 2022, GIL had incurred around 78% of capex without any additional external debt.

Liquidity Indicator - Adequate: GIL has low repayment obligations as the long-term liabilities on the balance sheet are only in the form of interest-free loans (payable from FY25 onwards) and unsecured loans from body corporates with no fixed repayment schedule (likely to be replaced with the bank term loan by FYE23). The average utilisation of the fund-based limits (INR2,000 million; likely to increase to INR3,000 million by January 2023) was around 74% for the 12 months ended November 2022, providing adequate liquidity cushion. The free cash balance was marginal at INR6 million at 1HFYE23 (FYE22: INR5 million; FYE21: INR11 million). The cash flow from operations increased to INR2,183 million in FY22 (FY21: INR1,570 million), led by higher absolute EBITDA of INR2,963 million (INR2,692 million), and is likely to remain positive during FY23 and FY24. The free cash flow turned negative at INR671 million in FY22 (FY21: INR244 million) and is likely to remain negative in FY23; owing to the ongoing capex. The debt service coverage ratio is likely to remain above 1.5x over FY23-FY24.

With a major portion of the planned capex having been incurred and the benefits of the expanded capacities flowing in, Ind-Ra expects the entity to witness improved volumes, and thus, enhanced scale of operations over FY23-FY25. The agency expects the entity's liquidity position to remain adequate over FY23-FY24, considering the low repayment obligations, consistent positive cash flow from operations and moderate utilisation of the working capital limits. Any surplus liquidity extended as loan to related/unrelated corporates will be monitored closely (FY22: INR44.6 million; FY21: INR41.7 million)

Subsidy Receipts for Gorakhpur unit to Boost Liquidity: GIL's capacity expansion that was undertaken in the past and also the expansion that is under implementation at the Gorakhpur unit are eligible for subsidies under i) Infrastructure & Industrial Investment Policy of Uttar Pradesh (IIIP), 2012 and ii) Industrial Investment and Employment Promotion Policy of Uttar Pradesh (II&EPP), 2017. The unit has been awarded the status of super mega project under II&EPP, whereby the company is eligible for partial reimbursement of the state goods and services tax paid for 10 years (FY23-FY32), subject to an annual ceiling of 20% of the capital investment reimbursed or actual tax deposited, whichever is lower, with an overall ceiling of 300% of the fixed capital investment. In FY22, GIL realised a subsidy amount of INR368.1 million under IIIP (FY21: nil). As per Ind-Ra, the realisation of subsidies over the medium term shall further boost GIL's liquidity profile.

Steady Revenue Growth; Dip in EBITDA Margin: On an amalgamated basis, the entity reported a revenue of INR19,523 million in 1HFY23 (FY22: INR30,174 million; FY21: INR21,051 million), supported by higher realisations and volume growth. Ind-Ra expects the revenue to be higher on a yoy basis in FY23. However, the overall amalgamated

EBITDA margin dipped to 7.72% in 1HFY23 (FY22: 9.82%; FY21: 12.79%), owing to increased raw material costs. Ind-Ra expects the margins to be lower on a yoy basis in FY23, led by reduced spreads.

Realisation of Pending Claims: Ind-Ra does not expect GIL to receive any claim in FY23 for the investment made at the Gorakhpur unit under a scheme of Uttar Pradesh, 2006, due to an unexpected delay in legal proceedings. This is despite the Allahabad High Court's order that directed the government agency responsible for claims to expedite the final settlement. Ind-Ra will continue to monitor the progress with respect to the various pending claims of about INR5.68 billion (excluding accrued interest); if this amount is received, GIL's liquidity will improve considerably.

Partially-Integrated Plants; Exposure to Input Price Volatility: GIL operates two integrated TMT bar manufacturing facilities - in Kutch, Gujarat, and Gorakhpur, UP, with captive sponge iron and mild steel billets plants, resulting in better cost control and efficient operations. The captive power plants in both the facilities meet the entire power requirement, ensuring uninterrupted supply. The proximity of the Kutch unit to the port (Kandla Port is around 68km away) provides a significant advantage in terms of importing coal and gives GIL easy access to the southern and eastern markets. However, the Kutch unit procures products such as iron ore, coal, and scrap, which together comprises 80%-85% of the total cost, on spot prices and does not have raw material linkages by way of captive iron ore mines or coal linkages, exposing the EBITDA margins to fluctuations in raw material prices. The Gorakhpur unit, on the other hand, has partial coal linkages and has lower dependency on imports, as it is located in a land-locked region. Moreover, it has its own railway sidings, thereby reducing the logistics costs.

Inherent Industry Risks: The steel sector is characterised by highly cyclical demand, and volatility in input prices and product realisations. GIL procures partial inputs domestically and via imports, thus exposing its margins to raw material price and foreign exchange fluctuations. Low backward integration leads to lower cost control, increasing the company's vulnerability to industry cycles. However, GIL's planned pelletisation capacity at Gorakhpur unit, which is a step towards backward integration, is likely to start by April 2023. Furthermore, 44% of GIL's power requirement is being met by waste-heat-based captive power and partial coal linkages. These factors are likely to protect the combined margins to a certain extent.

Considering the low value-added products in its portfolio, unlike other players in the hot-rolled coils and cold-rolled coils segments, GIL's susceptibility to fluctuations in steel prices is higher. Being a partially-integrated long product player, the entity's product profile continues to be dominated by low value-added TMT bars (1HFY23: 82.2%; FY22: 76.4%, FY21: 83%). The commoditised nature of products exposes the entity to volatility in the prices finished products and limits the company's ability to pass on an increase in raw material prices.

Rating Sensitivities

Positive: Timely completion of the ongoing capex and ramp-up of incremental capacities, resulting in improved and less volatile EBITDA margins, leading to the net adjusted leverage remaining below 1.5x, on a sustained basis, would lead to a positive rating action.

Negative: A substantial decline in the scale of operations, operating margins and/or the net adjusted leverage exceeding 2.25x, on a sustained basis, will lead to a negative rating action. Any unrelated diversion of funds could also lead to a negative rating action.

Company Profile

Incorporated in 2005, GIL is a partially-integrated re-rolled products (TMT bars, 950,400tpa) manufacturer with an in-house sponge iron (918,000tpa) and mild steel billets production (957,000tpa) with two facilities located at Kutch (Gujarat) and Gorakhpur (Uttar Pradesh). The operations are backed by its 100% captive power generation (129MW). GIL is promoted by Chandra Prakash Agrawal and is listed on the BSE Limited and the National Stock Exchange of India Limited.

FINANCIAL SUMMARY

Particulars	1HFY23 (Amalgamated)	FY22 (Amalgamated)	FY21 (Amalgamated)
Net revenue (INR million)	19,523	30,174	21,051
EBITDAR (INR million)	1,507	2,963	2,692
EBITDAR margin (%)	7.72	9.82	12.79
EBITDAR interest coverage (x)	13.63	14.48	12.39
Net adjusted leverage (x)	1.46*	1.30	1.44
Source: GIL, Ind-Ra; *on an annualised basis			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/ Rating Watch/Outlook					
	Rating Type	Rated Limits (million)	Rating/Outlook	22 April 2022	27 January 2021	27 January 2020	4 October 2019	20 September 2018	29 August 2018
Issuer rating	Long-term	-	IND A/Stable	IND A/Stable	IND A/RWN	IND A/RWN	IND A/Stable	IND A/Stable	IND A/Stable
Fund-based limits	Long-term/Short-term	INR3,000	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/RWN/IND A1/RWN	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1
Non-fund-based limits	Short-term	INR3,000	IND A1	IND A1	IND A1/RWN	IND A1/RWN	IND A1	IND A1	IND A1
Long term loans (proposed)	Long-term	INR1,500	IND A/Stable	-	-	-	-	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based limits	Low
Non-fund-based limits	Low

Long term loans (proposed)	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates