GIL/GKP/2024-25
June 11, 2024

BSE 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 upgraded 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+	Upgraded
Non-fund-based limits	Rs. 400 Crores	IND A1+	Upgraded
Long Term Loans **(proposed)**	Rs. 150 Crores	IND A+/ Stable	Upgraded

A copy of Press Release is enclosed herewith.

Kindly take the above on your record.

Thanking you,

Yours faithfully,
GALLANTT ISPAT LIMITED

NITESH KUMAR
Digitally signed by NITESH KUMAR
Date: 2024.06.11 13:24:28 +05'30'

Nitesh Kumar
(COMPANY SECRETARY)
M. No. F7496

Encl: As above

IndiaRatings & Research
A Fitch Group Company

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India Ratings Upgrades Gallantt Ispat's Bank Facilities to 'IND A+'/Stable

Jun 10, 2024 | Iron & Steel

India Ratings and Research (Ind-Ra) has upgraded Gallantt Ispat Limited's (GIL) bank facilities' ratings to 'IND A+' from 'IND A'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits	-	-	-	INR3,000	IND A+/Stable/IND A1+	Upgraded
Non-fund-based working capital limits	-	-	-	INR4,000	IND A1+	Upgraded
Long-term loan (proposed)	-	-	-	INR1,500	IND A+/Stable	Upgraded

Analytical Approach

Ind-Ra continues to assess the standalone profile of the company to arrive at the ratings.

Detailed Rationale of the Rating Action

The upgrade factors in the successful ramp-up of GIL's new pellet plant, and improved cost control, which has led to higher profitability, and hence, improved credit metrics in FY24. Furthermore, GIL's operational and financial performance in FY23 and FY24 was better than Ind-Ra's estimates. With the capex almost complete and additional cash accruals flowing in, Ind-Ra expects GIL to sustain the improvement in performance over the medium term. While timely realisation of subsidies over the medium term shall further boost GIL's liquidity profile, realisation of pending claims shall be monitored closely.

List of Key Rating Drivers

Strengths

- Improved credit metrics
- Steady revenue growth; improved EBITDA per tonne
- Entirely self-funded capex at Gorakhpur unit
- Gorakhpur unit bolsters business profile
- Subsidy receipts for Gorakhpur unit to boost liquidity

Gallantt Ispat Limited

Weaknesses

- Realisation of pending claims
- Partially integrated plants; exposure to input price volatility

- Inherent industry risks

Detailed Description of Key Rating Drivers

Improved Credit Metrics: GIL's credit metrics remained healthy in FY24, supported by low external debt, and consequently, low interest obligations. Furthermore, the metrics improved in FY24 due to an increase in the absolute EBITDA and lower absolute debt. The net adjusted leverage (adjusted net debt including corporate guarantee/EBITDA) was 1.12x in FY24 (FY23: 1.70x; FY22: 1.30x), while the gross interest coverage (EBITDA/gross interest) was 15.89x (13.37x; 14.48x). GIL avails long-term debt by way of interest-free loans from the state government, but it has not yet availed any term loans from banks. With the ongoing capex funded entirely via internal accruals, the agency does not expect the gross debt levels to increase. Ind-Ra expects the adjusted net leverage to remain below 1.5x over FY25-FY26, considering the absence of any term debt drawdown, strong annual cash generation, a likely improvement in the capacity utilisation of enhanced/new facilities, and progressive long-term debt repayment. In addition, the agency expects the interest coverage to remain above 10.0x in FY25 and beyond.

Steady Revenue Growth; Improved EBITDA Per Tonne: Despite normalisation in blended realisations, GIL's revenue grew to INR42,271 million in FY24 (FY23: INR40,567 million; FY22: INR20,174 million), supported by improved volume growth. Ind-Ra expects the revenue to be higher on a yoy basis in FY25. Furthermore, the overall amalgamated EBITDA per tonne (t) improved to INR5,352/t in FY24 (FY23: INR4,781/t; FY22: INR4,972/t), as the decline in raw material costs was sharper than that in realisations. Ind-Ra expects the EBITDA/tonne to be around INR5,300/t-6,000/t over the medium term, led by economies of scale, increased backward integration and enhanced cost savings.

Entirely Self-Funded Capex at Gorakhpur unit: GIL has undertaken a large capex of around INR8,731 million (reduced from INR8,821 million estimated in February 2023 due to decrease in the incremental capacity planned) over FY19-FY25 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. The capex is being funded entirely by internal accruals and unsecured loans. The partially enhanced capacities commenced full-fledged operations from April 2022 and July 2023 and have been successfully ramped up, while the remaining capacity is likely to be commissioned by April 2025. At end-March 2024, GIL had incurred around 96% of capex without any additional external debt. Furthermore, as confirmed by the management, Ind-Ra has not included any cash flow impact or additional capex over FY25-FY26 towards any real estate projects.

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 Uttar Pradesh (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.

Subsidy Receipts for Gorakhpur Unit to Boost Liquidity: GIL's previous as well as ongoing capacity expansion at the Gorakhpur unit are eligible for subsidies under: i) Infrastructure and 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 FY24, GIL realised a subsidy amount of INR175 million under IIIP (FY23: nil; FY22: INR368.1 million; FY21: nil). Furthermore, as per management, in FY25, around INR1350 million shall be received towards the same. As per Ind-Ra, the realisation of subsidies over the medium term shall further boost GIL's liquidity profile.

Realisation of Pending Claims: As per Ind-Ra, GIL may not receive any major claim in FY25 for the investment made at the Gorakhpur unit under a scheme of Uttar Pradesh, 2006, due to a continued delay in the legal proceedings. This is despite the Allahabad High Court's order that directed the government agency responsible for claims to expedite the final settlement. The next hearing is scheduled in September 2024. 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. Also, GIL's pelletisation capacity at Gorakhpur unit, which is a step towards backward integration, has been operational since July 2023. The captive power plants in both facilities meet the entire power requirement, ensuring uninterrupted

Gallantt Ispat Limited

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 (40%-45%) 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. Furthermore, 41% of Gorakhpur unit's power requirement is being met by waste-heat-based captive power. These factors are likely to protect the combined margins to a certain extent.

Inherent Industry Risks: The steel sector is characterised by highly cyclical demand, and volatility in input prices and product realisations. GIL procures inputs (iron ore and coal) partially domestically and balance 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. 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 (FY24: 82%; FY23: 86%). The commoditised nature of products exposes the entity to volatility in the prices of finished products and limits the company's ability to pass on an increase in raw material prices.

Liquidity

Adequate: GIL has low principal repayment obligations (FY25: nil; FY26: INR60 million) as the long-term liabilities on the balance sheet are only in the form of interest-free loans. The average utilisation of the fund-based limits (INR3,000 million) was around 70% for the 12 months ended May 2024, providing adequate liquidity cushion. The free cash balance was moderate at INR426 million at FYE24 (FYE23: INR2 million; FYE22: INR5 million). The cash flow from operations increased to INR3,206 million in FY24 (FY23: INR736 million; FY22: INR2,183 million), led by higher absolute EBITDA, and is likely to remain positive during FY25. The free cash flow turned positive at INR1,212 million in FY24 (FY23: negative INR1,538 million; FY22: negative INR671 million) and is likely to remain positive in FY25; owing to low capex. The debt service coverage ratio is likely to remain above 10x over FY25-FY26.

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 FY25-FY26. The agency expects the entity's liquidity position to remain adequate over FY25-FY26, 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 (FY24: INR42.4 million; FY23: INR 40.3 million).

Rating Sensitivities

Positive: Improvement in backward/forward integration, resulting in substantial improvement EBITDA per tonne, while maintaining the net adjusted leverage below 1.5x, on a sustained basis, would lead to a positive rating action.

Negative: A substantial decline in the scale of operations, profitability and/or any large debt-led capex, leading to the net adjusted leverage exceeding 2.00x, on a sustained basis, will lead to a negative rating action. Any unrelated diversion of funds could also lead to a negative rating action.

About the Company

Incorporated in 2005, GIL is a partially integrated re-rolled products (TMT bars, 950,400tpa) manufacturer with an in-house pellet (792,000tpa), sponge iron (918,000tpa) and mild steel billets production (957,000tpa) with two facilities located at Kutch (Gujarat) and Gorakhpur (UP). 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.

KEY FINANCIAL INDICATORS

Particulars	FY24	FY23

Gallantt Ispat Limited

Net revenue (INR million)	42,271	40,567
EBITDA (INR million)	4,482	3,641
EBITDA margin (%)	10.60	8.97
EBITDA interest coverage (x)	15.89	13.37
Net adjusted leverage (x; including corporate guarantee)	1.12	1.70
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating/Outlook	22 September 2023	13 March 2023	11 January 2023	22 April 2022
Issuer rating	Long-term	-	-	WD	IND A/Stable	IND A/Stable	IND A/Stable
Fund-based working capital limits	Long-term/Short-term	INR3,000	IND A+/Stable/IND A1+	-	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1
Non-fund-based working capital limits	Short-term	INR4,000	IND A1+	-	IND A1	IND A1	IND A1
Long-term loan (proposed)	Long-term	INR1,500	IND A+/Stable	-	IND A/Stable	IND A/Stable	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Long-term loan (proposed)	Low

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

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

Gallantt Ispat Limited

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