

December 28, 2023 ^(Revised)

Gajanan Ferro Pvt Ltd: [ICRA]BBB(Stable)/[ICRA]A3+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	15.00	[ICRA]BBB(Stable); assigned
Long Term- Cash Credit	51.00	[ICRA]BBB(Stable); assigned
Short Term- Non-Fund Based -Bank Guarantee	25.00	[ICRA]A3+; assigned
Long Term - Unallocated Limits	9.00	[ICRA]BBB(Stable); assigned
Total	100.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings of Gajanan Ferro Private Limited (GFPL) factor in the significant experience of the promoters in the ferro alloy industry and a considerable improvement in the company's operational and financial performances in FY2022 and FY2023, which are expected to continue in FY2024. GFPL's operations are characterised by high capacity utilisation and capability to manufacture both silico manganese (SiMn) and ferro silicon (FeSi), resulting in a better product profile. GFPL's revenue and profits witnessed a significant improvement in FY2022 and FY2023, post acquisition of its stake by the promoters of Berro Alloys Limited (BAL, rated at [ICRA]A(Stable)/A2+). While BAL directly holds a ~19% stake in the company, the promoters of BAL hold an overall stake of 50% in GFPL through other holding companies. BAL provides operational support in bulk sourcing of raw materials, resulting in cost savings, along with other financial support, as required. The capacities of the entity were also enhanced in FY2023, which were funded through internal accruals and support from the promoters/BAL. With the enhanced capacities, the overall sales volume is expected to increase in FY2024. However, a decline in ferro alloys prices in the current fiscal is likely to result in a moderate increase in revenues by 10-12% in FY2024. While the operating margins are also expected to decline to an extent, the overall operating profits and net cash accruals are still expected to remain comfortable relative to the debt servicing obligations of the entity. The debt coverage indicators are also expected to remain healthy in the near-to-medium term.

The ratings, however, also take into consideration the high working capital intensive nature of operation, as reflected by a high working capital intensity of ~23% in 6M FY2024. While the company supplies primarily to the PSU clients, which mitigates the counterparty risks, the high credit period offered stretches the receivable position of the entity. The utilisation of working limit also remained high at an average of ~94% in the last six months. In addition, non-integrated nature of operation exposes GFPL to the risk of raw material price fluctuation as well as changes in power tariff, given high power requirement in the manufacturing process. The company is also exposed to the cyclical nature of the ferro alloy industry with complete dependence on the steel sector.

The Stable outlook on the long-term rating reflects ICRA's opinion that GFPL is likely to witness a sustained revenue growth and an optimum utilisation of its production capacities. Its debt coverage indicators and liquidity are likely to remain comfortable with healthy cash accruals and support from the BAL Group.

Key rating drivers and their description

Credit strengths

Operational and financial support from BAL Group – The BAL Group had purchased a stake in the company in FY2022. While BAL directly holds a ~19% stake in the company, the promoters of BAL hold an overall stake of 50% in GFPL through others holding companies. BAL provides operational support in bulk sourcing of raw materials, resulting in cost savings, along with other financial support, as required. The capacities of the entity were also enhanced in FY2023, which were funded through internal accruals and support from the promoters/BAL. BAL also provides working capital support to run the operations, which is expected to continue, going forward.

Reputed clientele – GFPL's products largely cater to the steel industry. The company entirely sells its products in the domestic market. The major clientele includes Rashtriya Ispat Nigam Ltd. (RINL) and Steel Authority of India Ltd. (SAIL), which reduces counterparty risks to an extent. The company also supplies to BAL on need basis to meet the clients' requirements.

Financial performance improved in FY2022 and FY2023; expected to remain comfortable in FY2024 as well – The company has recovered from its weak financial position in FY2021, with a significant increase in revenue and profits in FY2022 and FY2023. With the enhanced capacities, the overall sales volume is expected to increase in FY2024. However, a decline in ferro alloys prices in the current fiscal is likely to result in a moderate increase in revenues by 10-12% in FY2024. While the operating margins are also expected to decline to an extent, the overall operating profits and net cash accruals are still expected to remain comfortable relative to debt-servicing obligations of the entity. The debt coverage indicators are also expected to remain healthy in the near-to-medium term.

Credit challenges

Working capital intensive nature of operations – GFPL's working capital intensity remained high at over ~23% in 6M FY2024. The high credit period offered stretches the receivable position of the entity. The working limit utilisation also remained high with an average utilisation of ~94% in the last six months. The BAL Group offers working capital support, which provides some comfort.

Non-integrated operations expose the entity to volatility in raw material and product prices – Raw materials account for one of the major costs of ferro-alloy producers like GFPL (contributing ~40% to the total cost). The main raw materials procured from outside include manganese ore, coal, coke and charcoal which have exhibited sharp volatility in the past. GFPL's profit margins remain vulnerable to fluctuations in ferro alloys prices as well as that of raw materials, given the lack of backward integration. In addition, ferro alloys manufacturing operations are also highly energy intensive, accounting for ~30% of the total cost. While the power tariff remains comfortable, any major increase in the same would significantly impact the cost structure of the company.

Exposed to client concentration risk – In FY2022 and FY2023, RINL accounted for 70% and ~40% of the sales revenues, respectively. While RINL is expected to remain the major client going forward, new orders from other reputed PSUs are likely to mitigate the client concentration risk to an extent.

Cyclical nature of ferro-alloy industry with complete dependence on steel sector – Metal ores and ferro alloys exhibit considerable cyclicity and are highly sensitive to global and domestic demand patterns. Therefore, GFPL will remain exposed to the cyclical demand in the steel industry.

Liquidity position: Adequate

The company's liquidity position is likely to remain adequate, supported by healthy accruals. The scheduled debt repayment is expected to remain moderate at Rs. 2-4 crore in FY2024 and FY2025. However, comfortable cash accruals from its core operations, working capital support from BAL as well as long-term working capital loan raised in the current fiscal will support the liquidity position of the entity.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates healthy earnings, debt coverage indicators and liquidity on a sustained basis.

Negative factors – The ratings could be downgraded in case of any adverse impact on the revenue/profitability of the company, leading to a deterioration in debt protection metrics. Further, large debt-funded capex and/or higher working capital requirement, adversely impacting the liquidity position, may also trigger a downward rating revision. Specific trigger for the ratings downgrade would be an interest coverage of 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron and Steel Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Gajanan Ferro Pvt. Ltd. was founded in 2007 by Mr. Sachin Poddar in Dhalbhumgarh, Jamshedpur. It has two furnaces of 5 MVA capacity each. In May 2021, the BAL Group acquired a 50% stake in the company. Further, in FY2023, the company increased its capacity to 26,400 MTPA with the addition of two new 7.5 MVA furnaces and has also diversified its portfolio besides ferro silicon alloys. The company supplies its products primarily to PSU steel companies like Rashtriya Ispat Nigam Limited, SAIL etc.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	154.8	334.7
PAT	15.2	32.6
OPBDIT/OI	15.0%	14.8%
PAT/OI	9.8%	9.7%
Total outside liabilities/Tangible net worth (times)	2.3	1.6
Total debt/OPBDIT (times)	1.6	1.0
Interest coverage (times)	9.3	13.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of October 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 28, 2023	-	-	-
1 Long Term-Term Loan	Long term	15.00	14.00	[ICRA]BBB(Stable)	-	-	-
2 Long Term-Cash Credit	Long term	51.00	--	[ICRA]BBB(Stable)	-	-	-
3 Short Term-Non-Fund Based -Bank Guarantee	Short term	25.00	--	[ICRA]A3+	-	-	-
4 Long Term - Unallocated Limits	Long term	9.00	--	[ICRA]BBB(Stable)	-	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Bank Guarantee	Very Simple
Unallocated long term	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	2023	NA	2029	15.00	[ICRA]BBB(Stable)
NA	Cash Credit	NA	NA	NA	51.00	[ICRA]BBB(Stable)
NA	Bank Guarantee	NA	NA	NA	25.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	9.00	[ICRA]BBB(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis: Not Applicable
CORRIGENDUM

Document dated December 28, 2023 has been corrected with revisions as detailed below:

- In Pg 3, Key financial Indicator section, PAT and PAT/OI for FY2022 has been revised.

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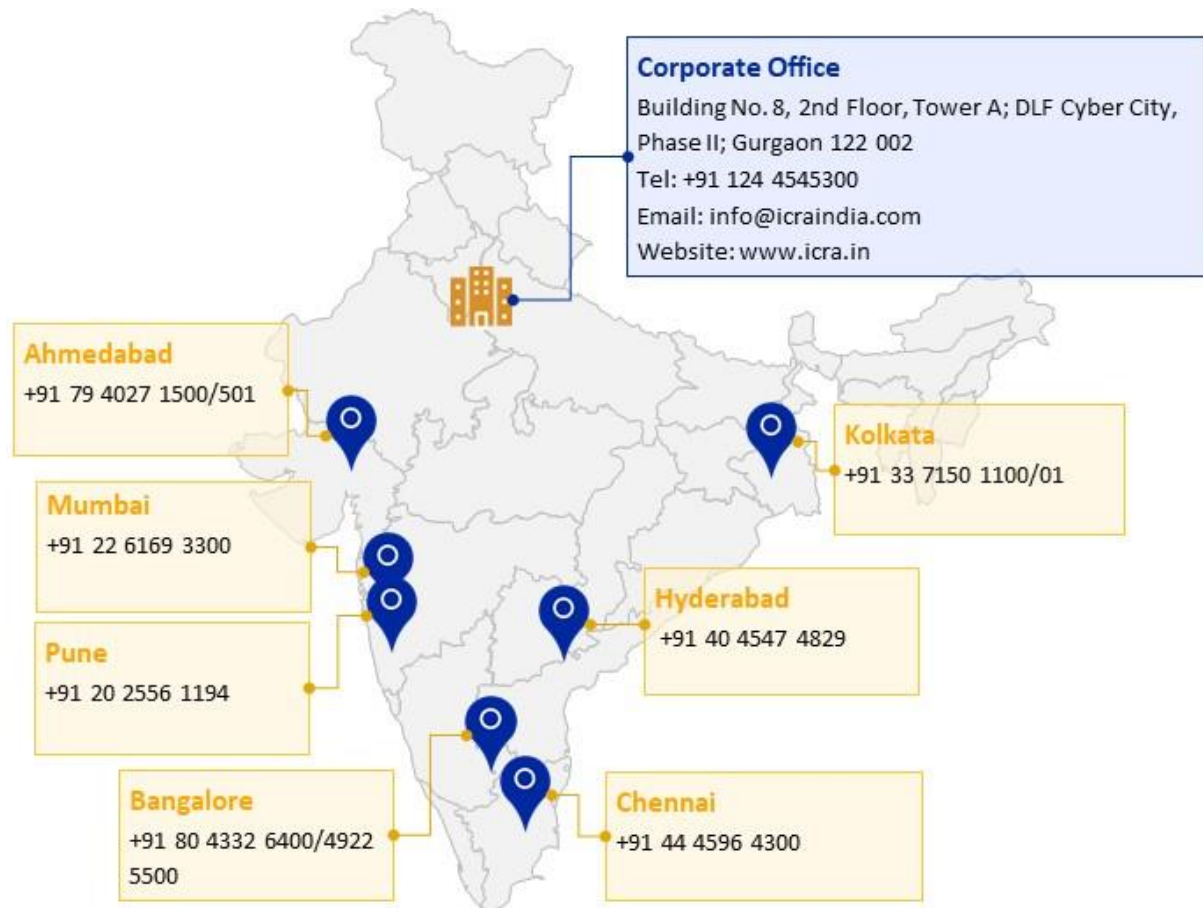
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