

GML/DEL/2019-20
January 27, 2020

Bombay Stock Exchange Limited Floor 25, P J Towers, Dalal Street, Mumbai- 400 001. INDIA.	National Stock Exchange of India Limited "EXCHANGE PLAZA", Bandra – Kurla Complex, Bandra (East), Mumbai- 400 051. INDIA.
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Sir/Madam,

SUB: INDIA RATINGS AND RESEARCH (IND-RA) HAS PLACED LONG-TERM ISSUER RATING OF 'INDA' ON RATING WATCH NEGATIVE (RWN)

We hereby inform that India Ratings and Research, A Fitch Group Company has placed Company's Long-Term Issuer Rating of 'IND-A' on Rating Watch Negative (RWN). The Outlook on the earlier rating was Stable. The instrument-wise rating actions are as follows:

Instrument Type	Size of Facilities	Rating/Rating Watch	Rating Action
Fund-based limits	Rs. 50 Crores	IND A/RWN/IND A1/RWN	Placed on RWN
Non-fund based limits	Rs. 128.8 Crores	IND A1/RWN	Placed on RWN

A copy of Press Release is enclosed herewith.

Thanking you,

Yours faithfully,

GALLANTT METAL LIMITED
GALLANTT METAL LIMITED



Company Secretary

Arnab Banerji

(COMPANY SECRETARY)

Encl: As above.

GALLANTT METAL LIMITED

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Corporate Identification No. : L27109DL2005PLC350524

India Ratings Places Gallantt Metal on RWN

27

By Shradha Saraogi

JAN 2020

India Ratings and Research (Ind-Ra) has placed Gallantt Metal Limited's (GML) Long-Term Issuer Rating of 'IND A' on Rating Watch Negative (RWN). The Outlook on the earlier rating was Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based limits	-	-	-	INR500	IND A/RWN/IND A1/RWN	Placed on RWN
Non-fund-based limits	-	-	-	INR1,288	IND A1/RWN	Placed on RWN

KEY RATING DRIVERS

The RWN reflects the approval of a Scheme of Amalgamation of Gallantt Ispat Limited (GIL), AAR Commercial Company Limited, Hipoline Commerce Private Limited, Richie Credit and Finance Private Limited and Lexi Exports Private Limited, all of which are transferor companies, with Gallantt Metal Limited (transferee company) by GML's Board on 18 January 2020.

The amalgamation is subject to approval from National Company Law Tribunal, Securities and Exchange Board of India, BSE Limited, National Stock Exchange of India Limited, shareholders, creditors and other statutory authorities as may be required. As per the management, such approvals will take six-to-nine months.

The RWN also factors in the fact that the consolidated business profile would continue to be skewed towards thermo-mechanically treated (TMT) bars (accounted for around 95% of the revenue as per FY19 financials), which is a highly commoditised product, and hence, the company's profitability margins are likely to remain volatile, as evident from the EBITDA margins reported during 9MFY20 by GML and GIL. Additionally, GIL's profitability is likely to be structurally lower than historical levels due to the expiration of freight subsidy benefits in FY18. Until FY18, GIL had been booking this income in the profit and loss account; however, the recovery against such freight subsidy receivable from the government of Uttar Pradesh has not happened as yet. Also, the impact of the amalgamation on the entity's consolidated financial profile would be a key monitorable.

Subsequent to the Supreme Court's ruling in GIL's favour on 21 August 2018, GIL expects capital/freight subsidy amounting to INR3260.9 million (excluding the interest accrued on the delayed disbursement of the subsidy) to be released by the government of Uttar Pradesh in 4QFY20. This could have a positive impact on the credit profile. However, the timing of the receipt continues to be uncertain, in Ind-Ra's opinion. Furthermore, both GML and GIL have planned large capex (GML – INR1.7 billion by FY20; GIL – INR9.7 billion by FY24-FY25) to increase the rolling capacity by 78%-80% to around 1.08 million metric tonnes per annum on a group level by FY24-FY25; this could increase the leverage of the combined entity. As the companies to be amalgamated are in the same line of business, the combined entity might be able to benefit from economies of scale and synergies. However, these advantages could take time to reflect.

Post the amalgamation, GML's promoter shareholding shall reduce to 59.43% from 67.23%. After the scheme comes into effect, the shareholders will not receive any cash consideration, but will be given equity shares in GML in defined exchange ratios for every share held in each of the transferor companies. At end-December 2019, GML held 25.68% stake in GIL, while GIL held 48.53% stake in GML. Also, Hipoline Commerce Private Limited is a promoter shareholder in GML. Additionally, Richie Credit and Finance Private Limited and Lexi Exports Private Limited were classified as public shareholders as per the shareholder disclosure of GML for the quarter ending December 2019. AAR Commercial Company Limited too was classified as a public shareholder in GIL. In FY19, GML provided a loan of INR100 million to Nihon Impex Private Limited, which is also classified as a public shareholder in GIL and had provided advances worth INR60 million to GIL in FY19.

The revenue of the amalgamated business is estimated to be around INR23 billion in FY19 (2.15x of GML's standalone FY19 revenue). GML's revenue declined by 17.5% yoy to INR6,576 million in 9MFY20 owing to a correction in realisations and decline in volumes, resulting from an overall subdued demand for steel products. Moreover, EBITDA margins fell sharply to 2.8% in 9MFY20 (9MFY19: 13.1%) owing to a steady drop in the realisations of TMT bars against sustained raw material prices.

Ind-Ra expects GML's operating performance to remain subdued on a yoy basis in FY20 in view of a drop in average TMT realisations. While TMT realisations have picked up from mid-December 2019, the EBITDA margins are likely to be below 5% for FY20, lower than Ind-Ra's initial expectations. Nevertheless, with no long-term liabilities on the balance sheet, GML does not have any repayment obligations. Furthermore, GML's average utilisation of fund-based limits (INR500 million) stood at around 67% over the 12 months ended December 2019, providing significant liquidity cushion.



RATING SENSITIVITIES

The RWN indicates that the ratings may be affirmed or downgraded upon resolution. Ind-Ra will resolve the rating watch by July 2020, by when there would be clarity on the consolidated operational and financial profile post the scheme of amalgamation.

COMPANY PROFILE

GML, incorporated in 2005, is a partially integrated re-rolled products (TMT bars) manufacturer with an in-house sponge iron and mild steel billets production. The operations are backed by 100% captive power generation (33MW). GML is promoted by Chandra Prakash Agrawal and is listed on the Bombay Stock Exchange and the National Stock Exchange.

FINANCIAL SUMMARY

Particulars	9MFY20	FY19	FY18
Net revenue (INR million)	6,576	10,638	8,456
EBITDAR (INR million)	184	1,247	865
EBITDAR margin (%)	2.79%	11.72%	10.23%
EBITDAR interest coverage (x)	3.20	20.81	13.18
Net adjusted leverage (x)	4.64	0.41	0.63
Source: GML, Ind-Ra			

RATING HISTORY

Instrument Type	Current Rating/Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating/Rating Watch	4 October 2019	20 September 2018	10 July 2017
Issuer rating	Long-term	-	IND A/RWN	IND A/Stable	IND A/Stable	IND A/Stable
Fund-based limits	Long-term/Short-term	INR500	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A2+
Non-fund-based limits	Short-term	INR1,288	IND A1/RWN	IND A1	IND A1	IND A2+

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

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ABOUT INDIA RATINGS AND RESEARCH

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), infrastructure and leasing companies, managed funds, urban local bodies and project finance companies.



Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology

Analyst Names

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