September 30, 2022

Guardian Castings Private Limited: Ratings upgraded to [ICRA] A-(Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based limits	33.05	33.05	[ICRA]A- (Stable), upgraded from [ICRA]BBB+ (Stable)
Long term, fund based, interchangeable	(15.00)	(15.00)	[ICRA]A- (Stable), upgraded from [ICRA]BBB+ (Stable)
Short term, non-fund-based limits	6.60	6.60	[ICRA]A2+, upgraded from [ICRA]A2
Short term, non-fund based, interchangeable	(33.05)	(33.05)	[ICRA]A2+, upgraded from [ICRA]A2
Long term/Short term, unallocated limits	8.00	8.00	[ICRA]A- (Stable)/[ICRA]A2+, upgraded from [ICRA]BBB+ (Stable) /[ICRA]A2
Total	**47.65**	**47.65**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings reflects the increased scale and improved financial profile of Guardian Castings Private Limited (GCPL) in FY2022, which is likely to sustain in FY2023, owing to improvement in sales volumes. GCPL reported healthy YoY revenue growth of 59% in FY2022 on the back of favourable demand conditions and higher realisations in the ferrous metals industry. Increased cash flows led to a further improvement in GCPL's financial profile as evident from its debt free status and healthy net worth position as on March 31, 2022. Notwithstanding the decline in steel realisations in FY2023, GCPL's scale of operations and financial profile are expected to remain adequately supported by the ramp-up in its sales volumes, driven by the Government's thrust on infrastructure projects and pick-up in demand from the end-user industries such as real estate and construction. The liquidity position of the company is also strong, underpinned by substantial unencumbered cash balances and fixed deposits and unutilised fund-based working capital limits of Rs. 33.05 crore as on August 31, 2022. GCPL's working capital intensity of operations (net working capital vis-à-vis operating income) continues to remain low at 9.2% in FY2022, supported by its low receivable and inventory holding period. The ratings continue to draw comfort from the extensive experience of the promoters in the steel industry and cost competitiveness emanating from its backward-integrated billet plant and availability of subsidised power tariff.

The ratings are, however, tempered by the highly commoditised and fragmented nature of the secondary steel industry, resulting in intense competition, limiting the company's pricing flexibility. The company's margins remain susceptible to volatility in raw material prices and foreign exchange rates given GCPL's dependence on imports. Additionally, the company remains exposed to the inherent cyclicality in the steel industry, which keeps its profits and cash flows volatile.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that GCPL's credit profile will remain supported by healthy domestic demand and its prudent working capital management.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the steel industry – GCPL is promoted by Mr. Ravinder Aggarwal, who has more than 30 years of experience in the steel manufacturing business. His son, Mr. Shravan Aggarwal has been associated with the company since its inception and has an experience of more than a decade in the manufacturing of long steel products. The extensive experience of the promoters has helped the company establish strong relationships with its customers as well as suppliers.

Partly integrated operations; subsidised power tariff supports operating profitability – The company has a partially integrated facility with an induction furnace and continuous caster to produce billets using sponge iron and scrap, which in turn are captively consumed towards production of TMT bars. Besides supporting the operating profitability, the backward integration ensures smooth raw material availability. As GCPL's manufacturing facility is in the D+ zone in Wada, Maharashtra, it is eligible to receive a subsidy on the power tariff, at the rate of Rs. 0.7 per unit of power consumed.

Increased scale of operations; strong financial profile – GCPL reported a robust 59% YoY revenue growth in FY2022 at Rs. 806.1 crore (as per provisional estimates) with an operating profit margin (OPM) of 7%, led by favourable demand conditions and elevated realisations. Increased cash flows led to a further improvement in GCPL's financial profile in FY2022, as evident from its debt free status and healthy net worth position as on March 31, 2022. Its debt coverage indicators also remained strong with an interest cover of 113.1 times in FY2022. GCPL's working capital intensity of operations also remains low due to tight credit period offered to its customers and low inventory holding. Notwithstanding the decline in steel realisations in FY2023, GCPL's scale of operations and financial profile are expected to remain adequately supported by ramp-up in its sales volumes, driven by the Government's thrust on infrastructure projects and pick-up in demand in the end-user industries such as real estate and construction.

Credit challenges

Highly commoditised and fragmented nature of secondary steel industry – The company operates in a highly commoditised industry with raw material and power cost accounting for 80-90% of the revenues. The secondary steel industry is intensely competitive owing to low product differentiation and low entry barriers. Intense competition in the industry limits pricing flexibility, which restricts scope for an improvement in profitability.

Margins susceptible to volatility in raw material prices and foreign exchange rates – The company's profit margins remain susceptible to volatility in major raw material prices such as sponge iron and scrap. ICRA, however, notes that the company has largely been able to pass on the increase in raw material prices to its customers. Besides, a large part of its scrap requirement is met through imports, which exposes its profit margins to volatility in foreign exchange rates.

Exposure to cyclicality inherent in end-user industries – The company's operations are vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as infrastructure, real estate, among others. The cyclicality inherent in these sectors is likely to keep the company's profits and cash flows volatile.

Liquidity position: Strong

GCPL's liquidity position is strong with substantial unencumbered cash and fixed deposits. The unutilised fund-based working capital limits of Rs. 33.1 crore provides additional cushion to its liquidity. The company does not have any major capital expenditure (capex) plans and repayment obligations in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant growth in revenues and profitability on a sustained basis, while maintaining healthy financial profile and liquidity position.

Negative factors – Pressure on the ratings could arise if a significant decline in the earnings of the company adversely impacts its liquidity and debt coverage metrices. Any large debt-funded capex/investment, which adversely impacts the financial risk profile of the company could also lead to ratings downgrade. Specific credit metric that could lead to ratings downgrade includes total debt-to-operating profit remaining above 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metals
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GCPL

About the company

Incorporated in 2004, GCPL manufactures billets and thermo mechanically treated (TMT) bars. At present, GCPL has a billet manufacturing unit and a rolling mill unit with installed capacities of 2,40,000 tonnes per annum (TPA) each. The billets manufactured are largely consumed in-house for manufacturing TMT bars. The company's manufacturing facility is in Wada, Maharashtra.

Key financial indicators

	FY2021 (Audited)	FY2022 (Provisional)
Operating Income (Rs. crore)	506.1	806.1
PAT (Rs. crore)	26.4	40.2
OPBDIT/OI (%)	8.1%	7.0%
PAT/OI (%)	5.2%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.1	0.0
Interest Coverage (times)	26.3	113.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					30-Sep-2022	22-Jul-2021	NA	28-Jan-2020
1	Fund based, term loan	Long term	-	-	-			[ICRA]BBB (Stable)
2	Fund based limits	Long term	33.05	-	[ICRA] A- (Stable)	[ICRA]BBB+ (Stable)		[ICRA]BBB (Stable)
3	Fund based, interchangeable limits	Long term	(15.00)	-	[ICRA] A- (Stable)	[ICRA]BBB+ (Stable)		[ICRA]BBB (Stable)
4	Non-fund-based limits	Short term	6.60	-	[ICRA] A2+	[ICRA] A2		[ICRA] A3+
5	Non-fund based, interchangeable limits	Short term	(33.05)	-	[ICRA] A2+	[ICRA] A2		[ICRA] A3+

6	Unallocated limits	Long term/ Short term	8.00	-	[ICRA] A- (Stable) /[ICRA] A2+	[ICRA]BBB+ (Stable)/ [ICRA] A2		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based limits	Simple
Fund based, interchangeable limits	Simple
Non-fund-based limits	Very Simple
Non-fund based, interchangeable limits	Very Simple
Unallocated limits	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund based limits	-	-	-	33.05	[ICRA] A- (Stable)
NA	Fund based, interchangeable limits	-	-	-	(15.00)	[ICRA] A- (Stable)
NA	Non-fund-based limits	-	-	-	6.60	[ICRA] A2+
NA	Non-fund based, interchangeable limits	-	-	-	(33.05)	[ICRA] A2+
NA	Unallocated limits	-	-	-	8.00	[ICRA] A- (Stable) /[ICRA] A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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