February 04, 2025

Guardian Castings Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term, fund-based limits	33.05	-	-
Short term, non-fund-based limits	42.62	-	-
Short term, non-fund based, interchangeable	(33.05)	-	-
Long term – Fund-based - Term loans	18.50	14.39	[ICRA]A- (Stable); reaffirmed
Short term/Long term – Fund-based/Non-fund based - Working capital limits	-	68.50	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Long term – Interchangeable – Cash credit	-	(45.00)	[ICRA]A- (Stable); reaffirmed
Short term – Interchangeable – Working capital demand loan	-	(68.50)	[ICRA]A2+; reaffirmed
Short term – Interchangeable – Bank guarantee	-	(26.00)	[ICRA]A2+; reaffirmed
Total	**94.17**	**82.89**	

**Instrument details are provided in Annexure I*

Rationale

The ratings favourably factor in the partly integrated nature of Guardian Castings Private Limited's (GCPL) operations, driven by its captive billet capacities, which support the overall profit margins. GCPL's healthy credit profile is backed by its prudent capital allocation policy, resulting in a conservative capital structure, evident from its low reliance on external debt. As on March 31, 2024, the company's gearing stood close to nil, and the TOL/TNW[1] at 0.3 times. Despite some moderation in profits and cash accruals since FY2024, the company's low debt levels are expected to keep the debt protection metrics comfortable in the medium term.

While the operating profits declined to Rs. 49.2 crore in FY2024 from Rs. 72.9 crore in FY2023 due to lower realisations, GCPL's revenues and absolute earnings are expected to be supported by a ramp-up in production/asset sweating and higher volume offtake, going forward. The company is mitigating the impact of the ongoing moderation in realisations by increasing the production capacity of its billet and TMT facilities from 2,40,000 metric tonnes per annum (MTPA) each in FY2024 to 3,60,000 MTPA in the medium term, along with enhancing the infrastructure for grid power availability from 20 MW in FY2025 to 24 MW in the near term. These developments will remain important from an earnings perspective .

Further, GCPL has consistently demonstrated resilience across business cycles, evident from its ability to report net profits even during downturns, such as the FY2016 metals meltdown caused by the deluge of cheap Chinese imports. This track record underscores the company's ability to navigate industry challenges and withstand adverse market conditions. ICRA notes that GCPL's overall credit profile is further supported by its strong liquidity position, which is underpinned by substantial unencumbered cash balances, fixed deposits and a comfortable buffer in fund-based working capital limits. Moreover, the company has low term loan repayments, which further supports the liquidity position.

[1] *TOL/TNW – Total outside liabilities/Tangible net worth*

However, the ratings are tempered by the highly commoditised and fragmented nature of the secondary steel industry, which results in intense competition and limits the pricing flexibility. The company also remains exposed to the inherent cyclicality in the steel industry, which can cause volatility in profits and cash flows.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GCPL's credit profile will remain supported by its strong liquidity, conservative capital structure and proven ability to report profits across business cycles.

Key rating drivers and their description

Credit strengths

Favourable credit profile characterised by conservative capital structure – The company's capital structure has remained conservative over the years, primarily due to its prudent capital allocation policy, leading to minimal reliance on external debt. As on March 31, 2024, the company reported a gearing of close to nil and a TOL/TNW ratio of 0.3 times. Despite some moderation in profits and cash accruals, the company's low debt levels are expected to support comfortable debt protection metrics over the medium term.

Strong liquidity profile mitigates volatility in earnings in a cyclical industry – GCPL's liquidity position is expected to remain strong, supported by substantial unencumbered cash reserves and fixed deposits. The company also benefits from a comfortable buffer in fund-based working capital limits, which ensures its ability to meet the liquidity needs of the underlying business. Despite the ongoing capital expenditure for the rolling mill and the planned investments in an induction furnace, a steady revenue generation and moderate profitability are projected to result in positive free cash flows in FY2025 and FY2026. These factors, along with low-term loan repayment obligations and sizeable cash reserves, are expected to help maintain a strong liquidity position in the future.

Integrated nature of operations, supported by captive billet capacities, supports profit margins – The company operates a partially integrated facility, comprising an induction furnace and continuous caster to produce billets from sponge iron and scrap. These billets are then captively consumed to produce TMT bars. This backward integration not only ensures smooth billet availability for the rolling mills but also supports the operating profitability by enhancing the cost efficiencies due to lower dependence on costlier external billet purchases.

Ability to report net profits across business cycle demonstrates company's resilience to withstand adverse industry environment – Over the period FY2014 to FY2024, the company has consistently reported net profits, showcasing its resilience to withstand industry downturns. For instance, GCPL managed to remain profitable during the global metals meltdown in FY2016 caused by increased Chinese steel imports. With the declining steel realisations and lower steel spreads, the company is looking to mitigate the impact by expanding its production capacity for billets and TMT bars to 3,60,000 MTPA from 2,40,000 MTPA over the medium term. Additionally, it is addressing power-related challenges by increasing its intake capacity to 24 MW in the near term from 18 MW in FY2024, which is expected to support higher production levels, going forward.

Credit challenges

Intensely commoditised nature of business puts pressure on profit margins – GCPL operates in a highly commoditised industry where raw material and power costs account for 80–90% of the revenues. The secondary steel sector is characterised by intense competition due to low product differentiation and minimal entry barriers. As a result, the pricing flexibility is limited and restricts any significant improvement in profit margins. That said, ICRA understands that GCPL is able to get a premium over the prevailing market rates for TMT bars, which has been one of the factors behind the company's ability to consistently report net profits across business cycles.

High volatility in earnings due to presence in cyclical steel industry; earnings to remain under pressure in the current year due to weak demand – The cyclical nature of the steel industry exposes the company to significant fluctuations in earnings. For FY2025, the realisations are expected to decline, causing the revenues to remain largely flat over the FY2024 levels. The company's operations are vulnerable to adverse shifts in the demand-supply dynamics in key end-user sectors, such as infrastructure and real estate. The inherent cyclicality of these sectors is likely to expose GCPL to volatility in profits and cash flows.

Liquidity position: Strong

GCPL's liquidity position is expected to remain strong, supported by calibrated growth plans, track record of free cash flow generation in three of the last five years and substantial unencumbered cash reserves and fixed deposits. With a comfortable buffer in fund-based working capital limits, the company is well-positioned to manage its liquidity needs. Despite the ongoing capital expenditure for the rolling mill and the planned investments in an induction furnace, the company is expected to generate positive free cash flows in FY2025 and FY2026. These factors, combined with low-term loan repayments and large cash reserves, would support a strong liquidity, going forward.

Rating sensitivities

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

Negative factors – Pressure on the ratings could arise if a significant decline in the company's earnings adversely impacts its liquidity and debt coverage metrices. Any large debt-funded capex/investment, which adversely impacts the company's financial risk profile, could also trigger a downgrade. A specific credit metric for downgrade would be the 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 Iron & Steel Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GCPL

About the company

GCPL, incorporated in 2004, is a promoter-owned entity, manufacturing 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 mainly consumed in-house for producing TMT bars. The company's manufacturing facility is at Wada, Maharashtra.

Key financial indicators (audited)

GCPL	FY2023	FY2024
Operating income	981.3	995.5
PAT	55.8	40.3
OPBDIT/OI	7.4%	4.9%
PAT/OI	5.7%	4.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.0	0.2
Interest coverage (times)	138.5	48.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Feb 04, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based, term loan	Long term	14.39	**[ICRA]A- (Stable)**	Dec-26-23	[ICRA]A- (Stable)	-	-	-	-
Fund based limits	Long term	-	-	Dec-26-23	[ICRA]A- (Stable)	Sep-30-22	[ICRA]A- (Stable)	Jul-22-21	[ICRA]BBB+ (Stable)
Fund based, interchangeable limits	Long term	-	-	Dec-26-23	-	Sep-30-22	[ICRA]A- (Stable)	Jul-22-21	[ICRA]BBB+ (Stable)
Non-fund-based limits	Short term	-	-	Dec-26-23	[ICRA]A2+	Sep-30-22	[ICRA]A2+	Jul-22-21	[ICRA]A2
Non-fund based, interchangeable limits	Short term	-	-	Dec-26-23	[ICRA]A2+	Sep-30-22	[ICRA]A2+	Jul-22-21	[ICRA]A2
Unallocated limits	Long term/ Short term	-	-	-	-	Sep-30-22	[ICRA]A- (Stable)/ [ICRA]A2+	Jul-22-21	[ICRA]BBB+ (Stable)/ [ICRA]A2
Fund based/ Non-fund based - Working capital limits	Short term/Long term	68.50	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-	-	-	-	-
Interchangeable, fund-based – Cash credit	Long term	(45.00)	**[ICRA]A- (Stable)**	-	-	-	-	-	-
Interchangeable, fund-Based – Working capital demand loan	Short term	(68.50)	**[ICRA]A2+**	-	-	-	-	-	-
Interchangeable, non-fund based – Bank guarantee	Short term	(26.00)	**[ICRA]A2+**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Term loans	Simple
Short term/Long term – Fund-based/ Non-fund based - Working capital limits	Simple
Long term – Interchangeable – Cash credit	Simple
Short term – Interchangeable – Working capital demand loan	Simple
Short term – Interchangeable – Bank guarantee	Very Simple

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 loans	FY2024	NA	FY2029	14.39	[ICRA]A- (Stable)
NA	Fund based/Non-fund based - Working capital limits	-	-	-	68.50	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Interchangeable – Cash credit	-	-	-	(45.00)	[ICRA]A- (Stable)
NA	Interchangeable – Working capital demand loan				(68.50)	[ICRA]A2+
NA	Interchangeable – Bank guarantee	-	-	-	(26.00)	[ICRA]A2+

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

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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