July 22, 2021

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based Term Loan	8.00	-	-
Long-term - Fund-based Limits	33.05	33.05	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term – Fund-based Interchangeable	(15.00)	(15.00)	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short-term - Non-fund Based Limits	6.60	6.60	[ICRA]A2; upgraded from [ICRA]A3+
Short-term - Non-fund Based Interchangeable	(33.05)	(33.05)	[ICRA]A2; upgraded from [ICRA]A3+
Long-term / Short-term Unallocated Limits	-	8.00	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Total	**47.65**	**47.65**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade reflects the improvement in Guardian Castings Private Limited's (GCPL) operating performance in FY2021 on the back of favourable demand conditions and higher realisations in the ferrous metals industry. Along with the receipt of arrears of power subsidy aggregating to Rs. 11 crore, this led to an improvement in its overall financial risk profile as well as the liquidity position. As on June 30, 2021, GCPL had ~Rs. 40 crore of unencumbered liquid balances and Rs. 33 crore of unutilised bank limits. ICRA expects the financial profile of GCPL to remain strong, with continued low dependence on external debt on the back of favourable operating environment in the ferrous metals industry, driven by the Government's thrust on infrastructure projects and expectation of higher demand from the end-user industries such as real estate and construction. The ratings continue to draw comfort from the extensive experience of the promoters in the steel industry and cost competitiveness emanating from the backward-integrated billet plant and availability of subsidised power tariff. The ratings continue to favourably factor in the low working capital intensity of the company's operations owing to low receivables and inventory days.

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]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from the favourable operating environment in the ferrous metals industry. ICRA believes that GCPL's financial risk profile and liquidity profile would remain comfortable, supported by low reliance on external debt.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in steel industry – GCPL is promoted by Mr. Ravinder Aggarwal, who has more than 30 years of experience in the steel manufacturing business. Mr. Shravan Aggarwal, second generation entrepreneur, 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 also ensures smooth raw material availability. As GCPL's manufacturing facility is in D+ zone in Wada, Maharashtra, it is eligible to receive a subsidy of Rs. 1.54 per unit of power consumed, which also supports its operating profitability. Under the revised subsidy scheme announced in FY2018 by the Maharashtra Government, the company is eligible to receive a subsidy of Rs. 1.54 per unit of power consumed since April 1, 2016 (on a retrospective basis), which was Rs. 1.24 per unit earlier. Hence, the company received arrears of power subsidy worth Rs. 11 crore in FY2021, which boosted its profitability and liquidity position.

Strong financial risk profile and liquidity position – The company's financial risk profile continues to remain strong owing to limited reliance on external debt and low working capital intensity of operations due to tight credit period offered to its customers and low inventory holding. While the company reported a YoY 8% revenue decline in FY2021 to Rs. 495 crore (largely owing to the pandemic induced demand slowdown in Q1 FY2021) from Rs. 535 crore in FY2020, its operating profit margin (OPM) improved to 6% in FY2021 (as per provisional estimates) from 4.5% in FY2020 due to an increase in contribution margins amid elevated realisations. GCPL also received Rs. 11 crore of arrears of power subsidy (for the period April 2016 to February 2019), which further bolstered its liquidity position and limited dependence on external debt. The debt coverage indicators continued to remain strong, as evident from an interest coverage of 19.0 times in FY2021, total debt-to-operating profit ratio (Total Debt/OPBDITA) of 0.1 times and net cash accruals-to-total debt (NCA/TD) of 1,392% as on March 31, 2021 (as per provisional estimates). ICRA expects the company's financial profile to remain strong in the current fiscal with an improvement in domestic steel demand and elevated steel realisations.

Favourable demand outlook for steel industry – The steel sector witnessed a sharp recovery in H2 FY2021, after a significant contraction in FY2020, which was further aggravated by the pandemic. The domestic steel prices have increased significantly from H2 FY2021, supported by a spurt in global steel prices and higher demand from the end-user industries. ICRA believes that a significant improvement in steel demand and elevated realisations will result in a healthy growth in the company's revenue, profits and cash flows in the current fiscal.

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 steel industry – 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 unencumbered liquid balances of ~Rs. 40 crore as on June 30, 2021. The unutilised fund-based working capital limits of Rs. 33.1 crore provides additional cushion to its liquidity. GCPL had also prepaid its long-term debt of Rs. 2.2 crore (outstanding as on March 31, 2021) in Q1 FY2022. 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 GCPL's ratings if the company demonstrates growth in revenues and profitability on a sustained basis amid the cyclical nature of the steel industry. The company's continued low dependence on debt and efficient working capital management would also be key rating sensitivities.

Negative factors – Pressure on the ratings could arise if there is a significant decline in revenues and/or profitability. Any larger-than-anticipated debt-funded capex/investment adversely impacting the financial risk profile/liquidity position of the company could also lead to ratings downgrade. Specific credit metric that could lead to ratings downgrade includes RoCE (Return on capital employed) remaining below 16% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
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 (Standalone)

	FY2020(A)	FY2021(P)
Operating Income (Rs. crore)	535.3	495.2
PAT (Rs. crore)	14.1	25.9
OPBDIT/OI (%)	4.5%	6.0%
PAT/OI (%)	2.6%	5.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.7
Total Debt/OPBDIT (times)	0.5	0.1
Interest Coverage (times)	14.5	19.0

A – Audited; P – Provisional; 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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					22-Jul-2021	-	28-Jan-2020	28-Sep-2018
1	Fund-based Term Loan	Long-term	-	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based Limits	Long-term	33.05	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Fund-based Interchangeable Limits*	Long-term	(15.00)	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Non-fund Based Limits	Short-term	6.60	-	[ICRA]A2	-	[ICRA]A3+	[ICRA]A3+
5	Non-fund Based– Interchangeable Limits*	Short-term	(33.05)	-	[ICRA]A2	-	[ICRA]A3+	[ICRA]A3+
6	Unallocated Limits	Long-term / Short-term	8.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

** Fund-based and Non-fund based interchangeable limits are sublimit of Cash credit facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Cash Credit	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, is available on ICRA's website: www.icra.in

Annexure - 1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	-	-	-	-	-
NA	Cash Credit	-	-	-	33.05	[ICRA]BBB+(Stable)
NA	Working Capital Demand Loan Interchangeable*	-	-	-	(15.00)	[ICRA]BBB+(Stable)
NA	Bank Guarantee				6.60	[ICRA]A2
NA	Letter of Credit/ Buyer's Credit	-	-	-	(33.05)	[ICRA]A2
NA	Unallocated Limits	-	-	-	8.00	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: *Company*

Annexure - 2: List of entities considered for consolidated analysis – NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

Rishabh Mundada
+91 22 6169 3379
rishabh.mundada@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

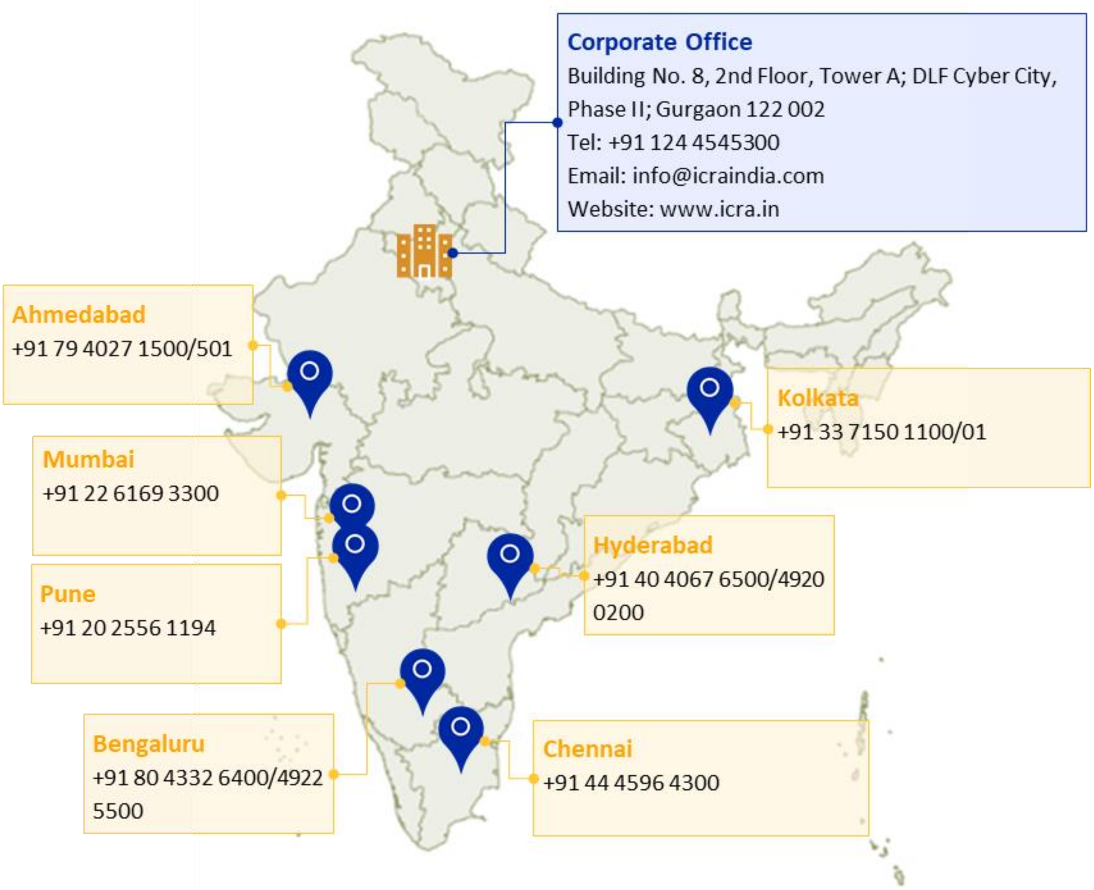
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.