

January 28, 2020 ^{Revised}

Guardian Castings Private Limited: Ratings reaffirmed at [ICRA]BBB(Stable)/[ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	6.85	8.00	[ICRA]BBB (Stable); reaffirmed
Fund-based – Cash Credit	33.05	33.05	[ICRA]BBB (Stable); reaffirmed
Fund-based – Interchangeable** (15.00)		(15.00)	[ICRA]BBB (Stable); reaffirmed
Non-fund Based – Bank Guarantee	5.10	6.60	[ICRA]A3+; reaffirmed
Non-fund Based – Interchangeable**	(33.05)	(33.05)	[ICRA]A3+; reaffirmed
Total	45.00	47.65	

*Instrument details are provided in Annexure-1

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

Rationale

The rating reaffirmation derives comfort from the extensive experience of Guardian Castings Private Limited’s (GCPL, “the company”) promoters in the thermo-mechanically treated (TMT) bar-manufacturing business, and their established relationship with customers who are primarily dealers. The ratings also continue to take comfort from the fairly high capacity utilisation of the backward-integrated billet plant along with receipt of power subsidy since April 1, 2016 (on a retrospective basis) which aids in cost control. The ratings also favourably factor in the significant growth in GCPL’s revenues in FY2019, primarily aided by the improving capital utilisation of the TMT unit. Besides, the ratings also continue to favourably factor in the low working capital intensity of the company’s operations on account of low debtor and inventory days. Despite the debt-funded capex incurred in FY2019, the modest working capital borrowings and corresponding net worth base has led to a healthy capital structure as on March 31, 2019. With low dependence on external debt, the interest coverage ratio also stood at comfortable levels in FY2019.

The ratings, however, remain constrained by the highly fragmented and intensely competitive nature of the TMT bar industry, limiting pricing flexibility. Besides, ICRA takes note of the overall decline in industry steel demand during 8M FY2020, resulting in a drop in TMT price realisations, which was due to sluggish infrastructure and construction activities. This had an impact on the company’s price realisation as well and moderated the company’s revenue growth and operating margin, which is primarily a function of the movement in TMT bar and billet prices in 8M FY2020. The ratings are further constrained by the exposure to foreign exchange rate fluctuation risks, with a part of the raw material requirement being met through imports. The ratings also take into account the vulnerability of GCPL’s business to the inherent cyclicity in the industry.

Going forward, the company’s ability to improve its revenues and profitability, by driving operational and working capital efficiency, will remain crucial.

Key rating drivers

Credit strengths

Experienced management with strong technical background in steel industry – GCPL is promoted by Mr. Ravinder Aggarwal, who has more than 30 years of experience in the steel-manufacturing business. Mr. Shraavan 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 a strong relationship with its customers as well as suppliers.

Partly-integrated operations; receipt of subsidy from the state government to reduce power cost – 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 the production of TMT bars. Besides supporting the operating profitability, the backward integration also ensures smooth raw material availability. GCPL has its manufacturing facility in D+ zone in Wada, Maharashtra. Under the revised subsidy scheme, it is eligible to receive a power 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. The receipt of this subsidy from the Maharashtra Government supports the operating margin as reflected by the power cost to output of 14.5% and 11.8% in FY2018 and FY2019 respectively.

Comfortable working capital cycle – GCPL's total inventory comprises a stock of sponge iron, scrap, billets and TMT bars produced by it. The company maintains an inventory of ~45-50 days so that it can meet its customers' demands. GCPL procures scrap from the overseas market by providing letters of credit (LCs). It provides a credit of ~10-20 days to its customers and receives similar credit from its suppliers. This has resulted in a comfortable net working capital/operating income (NWC/OI) of 8-10% in the last three years.

Improving capacity utilisation of TMT division saw revenue growth of 57% in FY2019; fairly high capacity utilisation of the captive billet division – GCPL's operating income increased by 57% year-on-year (YoY) to Rs. 494.2 crore in FY2019 from Rs. 314.3 crore in FY2018, driven by an increase in the volume sale of TMT bars. In November 2018, GCPL increased the installed capacity of its billet division by 60,000 TPA, to better cater to the rolling mill with an installed capacity of 1,80,000 TPA. The capacity utilisation of the billet division increased to 88% in FY2019 from 74% in FY2018 while the capacity utilisation of the rolling mill improved to 60% in FY2019 from 45% in FY2018. This in turn resulted in a 30% YoY volumetric increase in TMT bar sales of 1,05,146 MT during FY2019 as against 81,015 MT in FY2018.

Comfortable capitalisation and debt coverage metrics, despite debt-funded capex incurred in FY2019 – The company's total debt increased to Rs. 21.4 crore as on March 31, 2019, from Rs. 16.1 crore, as on March 31, 2018, primarily due to term debts taken to expand the billet division and towards the setting up of a scrap crushing unit. Though the company had undertaken debt-funded capital expenditures in FY2018 and FY2019, its capitalisation and debt protection metrics remained comfortable, given its moderate net worth base. The gearing stood at 0.4 time as on March 31, 2019 and interest coverage ratio at 10.6 times in FY2019.

Credit challenges

Exposure to cyclicity inherent in steel industry; TMT bar's realisation witnessed a declining trend from FY2019-8M FY2020 – The domestic steel industry is cyclical in nature, which impacts the cash flows of the steel players, including GCPL. The company's operations are vulnerable to any adverse change in demand- supply dynamics in the construction sector.

Decline in operating margin in FY2019 which is primarily a function of movement in TMT bar and billets prices – GCPL's operating margin declined to 4.9% in FY2019 from 6.5% in FY2018 on account of the increase in scrap and iron ore prices in relation to the TMT bar prices during FY2019. Though the realisation of TMT bars increased by 12% in FY2019 on a YoY basis, a disparity in the relative price movement of TMR bars with scrap and sponge iron resulted in

moderation in the operating margin in FY2019. The selling price of TMT bar, however, decreased by 12% during 8M FY2020 due to a de-growth in steel prices as a result of the sluggish infrastructure and construction activity accompanied by monsoons.

Intense competition from the highly fragmented and commoditised steel market – Steel prices are volatile as it depends on global prices and sentiments of local construction and real estate sectors. The ingot/billet and structural manufacturing businesses are characterised by intense competition across the value chain due to low product differentiation, and consequent high competition, which limit the pricing flexibility of the players, including GCPL.

Susceptibility of margins to raw material fluctuations and foreign exchange rate fluctuation risks pertaining to imports – GCPL’s operations is raw material intensive with consumption of raw materials and consumables accounting for over 65% of its operating income over the last three fiscals. The company imports a part of its scrap requirement through imports, which further exposes the company to fluctuations in exchange rates.

Liquidity position: Adequate

GCPL's liquidity profile remains adequate with healthy fund flow from operations during FY2019 accompanied by an increase in the scale of operations. The company has low repayment liability compared to net cash generation from the business. GCPL had external term loans of Rs. 10.4 crore outstanding on its books as on March 31, 2019 with annual repayments of ~Rs. 2.5 crore for the period FY2020-FY2023. The repayment burden is going to ease further in the years ahead as the company doesn’t have any major capacity expansion plans with all external term loans scheduled to be fully repaid by FY2024. The free cash and cash equivalent of Rs. 2.2 crore as on March 31, 2019, coupled with an unutilised cash credit facility of Rs. 30.7 crore as on November 31, 2019 provide a buffer to its liquidity profile. The utilisation of the working capital stood low at @22% during the 15-month period ended November 2019.

GCPL’s cash flow from operations (CFO) remained positive in the past few years on account of improved business growth. With GCPL’s business expected to chart a moderate growth trajectory in the medium term, its CFO is expected to remain positive. GCPL has a comfortable cushion available in the form of undrawn working capital limits and ICRA doesn’t foresee any major concerns on liquidity, given the absence of capacity expansion plans, limited burden of term debt repayments, besides minimal requirement of incremental working capital funding.

Rating sensitivities

Positive triggers – ICRA could upgrade GCPL’s rating if the company demonstrates consistent growth in revenue and profitability on a sustained basis, amid the cyclical nature of the steel industry. Strengthening of the net worth position would also be a positive trigger. The company’s continued low dependence on debt and efficient working capital management would also be a key rating positivity.

Negative triggers – Negative pressure on GCPL’s rating could arise in case of significant de-growth in revenues resulting in low operating profits, weakened profitability due to escalating direct costs or an increase in debt resulting from stretch in working capital cycle and may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 2004, Guardian Castings Private Limited (GCPL) manufactures billets and TMT bars. At present, GCPL has a billet manufacturing unit and a rolling mill unit with installed capacities of 1,80,000 tonnes per annum (TPA) (increased by 60,000 TPA in November 2018) and 1,80,000 TPA, respectively. The billets manufactured are largely consumed in-house for manufacturing TMT bars. The company's manufacturing facilities are in Wada, Maharashtra.

In FY2019, GCPL reported a net profit of Rs. 13.8 crore on an OI of Rs. 494.2 crore compared to a net profit of Rs. 10.0 crore on an OI of Rs. 314.3 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	314.3	494.2
PAT (Rs. crore)	10.0	13.8
OPBDIT/OI (%)	6.5%	4.9%
RoCE (%)	34.9%	38.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.6
Total Debt/OPBDIT (times)	0.8	0.9
Interest Coverage (times)	7.2	10.6
DSCR	3.9	4.9

Source: Company data; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding 30-Nov-2019	Rating 28-Jan-2020	FY2019 28-Sep-2018	FY2018 -	FY2017 8-Mar-2017
1 Term Loans	Long Term	8.00	8.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB-(Stable)
2 Cash Credit	Long Term	33.05	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB-(Stable)
3 Working Capital Demand Loan – Interchangeable*	Long Term	(15.00)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB-(Stable)
4 Bank Guarantee	Short Term	6.60	-	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3
5 Letter of Credit/ Buyers Credit – Interchangeable*	Short Term	(33.05)	-	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3
6 Unallocated Limit	Long Term/ Short Term	-	-	-	-	-	[ICRA]BBB-(Stable)/[ICRA]A3

Amount in Rs. crore

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

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 3	FY2018	8.85%	FY2023	5.20	[ICRA]BBB (Stable)
NA	Term Loan 4	FY2019	8.85%	FY2024	2.80	[ICRA]BBB (Stable)
NA	Cash Credit Working Capital	NA	NA	NA	33.05	[ICRA]BBB (Stable)
NA	Demand Loan – Interchangeable*	NA	NA	NA	(15.00)	[ICRA]BBB (Stable)
NA	Bank Guarantee Letter of Credit/	NA	NA	NA	6.60	[ICRA]A3+
NA	Buyers Credit – Interchangeable*	NA	NA	NA	(33.05)	[ICRA]A3+

Source: Guardian Castings Private Limited

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

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

Corrigendum

Rating rationale dated January 28, 2020 has been corrected with revisions as detailed below:

The second statement in the rationale's body has been re-worded. Earlier it appeared as "The ratings also continue to take comfort from the fairly high capacity utilisation of the backward-integrated billet plant, along with receipt of power since April 1, 2016 (on a retrospective basis) which aids in cost control". Now, it appears as "The ratings also continue to take comfort from the fairly high capacity utilisation of the backward-integrated billet plant along with receipt of power subsidy since April 1, 2016 (on a retrospective basis) which aids in cost control".

Analyst Contacts

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Preeti Kumaran

+91 22 6169 3356

Preeti.kumaran@icraindia.com

Sonam Kumari Agarwal

+91 22 6169 3357

Sonam.agarwal@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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