December 26, 2023

# Guardian Castings Private Limited: Ratings reaffirmed; rated amount enhanced

## 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); reaffirmed |
| **Long term, fund based, interchangeable** | (15.00) | - | - |
| **Short term, non-fund-based limits** | 6.60 | 42.62 | [ICRA]A2+; reaffirmed/ assigned |
| **Short term, non-fund based, interchangeable** | (33.05) | (33.05) | [ICRA]A2+; reaffirmed |
| **Long term/Short term, unallocated limits** | 8.00 | - | - |
| **Long Term – Fund Based - Term Loans** | - | 18.50 | [ICRA]A- (Stable); assigned |
| **Total** | **47.65** | **94.17** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings factor in the extensive experience of the promoters of Guardian Castings Private Limited (GCPL/ the company) in the steel industry and cost competitiveness emanating from its backward integrated billet plant and availability of subsidised power tariff. GCPL's financial profile remains strong, as evident from its debt free status and healthy net worth position as on March 31, 2023. While realisations are expected to witness a YoY moderation in FY2024, the company is expected to sustain its overall revenues owing to higher volume offtake, 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 September 30, 2023. GCPL's working capital intensity of operations (net working capital vis-à-vis the operating income) continue to remain low at 8.3% as on March 31, 2023, supported by its low receivable and inventory holding period.

GCPL has debt-funded capital expenditure (capex) plans over FY2024 and FY2025 towards establishing a rolling mill facility and backward integration through setting up an induction furnace. The total capex outlay is pegged at Rs. 75 crore, proposed to be funded via debt of Rs. 43.5 crore and the balance through available liquid investments. ICRA notes the power shortage issue that the company is facing since the past few years, which has also constrained its current capacity utilisation level. The management expects the same to be resolved by March 2024. The same remains a key monitorable as this would determine GCPL's ability to effectively utilise enhanced capacity and drive revenues, going forward. Notwithstanding the partial debt-funded capex to be incurred in H2 FY2024, the liquidity profile will continue to remain strong, supported by healthy cash flows, available liquid investments and limited dependence on working capital limits.

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 profitability remains 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 producing TMT bars. Besides supporting the operating profitability, the backward integration ensures smooth raw material availability.

**Strong financial profile –** GCPL reported a healthy 22% YoY revenue growth in FY2023 at Rs. 981.3 crore with an operating profit margin (OPM) of 7.4%, led by favourable demand conditions and elevated realisations. While realisations are expected to moderate on a YoY basis in FY2024, the company is likely to sustain its overall revenues owing to higher volume offtake, 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. GCPL's working capital intensity of operations also remains low due to tight credit period offered to its customers and low inventory holding. These have supported GCPL's financial profile, which continued to remain robust, as evident from its debt free status and healthy net worth position as on March 31, 2023. Its debt coverage indicators also remained strong with an interest cover of 138.5 times in FY2023. Notwithstanding the near-term partial debt funding capex for setting up rolling mill and induction furnace, the financial profile is expected to remain strong, supported by healthy liquid investments available.

### 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 expose 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 change 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. 33.05 crore provide additional cushion to its liquidity. Notwithstanding the near-term partial debt funding capex for setting up a rolling mill and an induction furnace, the liquidity profile is expected to remain strong. GCPL is likely to generate retained cash flows of Rs. 24.7 crore in FY2024 on the back of steady revenues and profitability. Against this, the company has scheduled term loan repayments of approximately Rs. 2.3 crore in FY2025 and Rs. 4.6 crore in FY2026 for the external debt being availed for funding the planned capex.

## 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<br>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

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 mainly consumed in-house for producing TMT bars. The company's manufacturing facility is in Wada, Maharashtra.

### Key financial indicators (audited)

| | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 806.4 | 981.3 |
| **PAT** | 40.8 | 55.8 |
| **OPBDIT/OI** | 7.1% | 7.4% |
| **PAT/OI** | 5.1% | 5.7% |
| **Total outside liabilities/Tangible net worth (times)** | 0.3 | 0.3 |
| **Total debt/OPBDIT (times)** | 0.0 | 0.0 |
| **Interest coverage (times)** | 86.8 | 138.5 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Sep 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Dec 26, 2023 | Sep 30, 2022 | Jul 22, 2021 | |
| 1 | Fund based, term loan | Long term | 18.50 | 3.3 | [ICRA]A- (Stable) | - | - | - |
| 2 | Fund based limits | Long term | 33.05 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | - |
| 3 | Fund based, interchangeable limits | Long term | - | - | - | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | - |
| 4 | Non-fund-based limits | Short term | 42.62 | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | - |
| 5 | Non-fund based, interchangeable limits | Short term | (33.05) | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | - |
| 6 | Unallocated limits | Long term/ Short term | - | - | - | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]BBB+ (Stable)/ [ICRA]A2 | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Term Loan | Simple |
| Fund based limits | Simple |
| Non-fund-based limits | Very Simple |
| Non-fund based, interchangeable limits | 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 | 18.50 | [ICRA]A- (Stable) |
| NA | Fund based limits | - | - | - | 33.05 | [ICRA]A- (Stable) |
| NA | Non-fund-based limits | - | - | - | 42.62 | [ICRA]A2+ |
| NA | Non-fund based, interchangeable limits | - | - | - | (33.05) | [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.

For more information, visit www.icra.in

## ICRA Limited

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