Press Release

Inducto Steels Limited

May 25, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 45.00 Crore bank facilities of Inducto Steels Limited (ISL). The outlook is **'Stable'**.

About the Company

Incorporated in 1988, Inducto Steel Limited (ISL) is public limited company listed at BSE and engaged in in ship breaking business in the Alang-Sosiya belt of Bhavnagar region of Gujarat with plot size of 2385 square meters having frontage of 45 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Apart from ship breaking business ISL also engaged in steel trading activities.

Analytical Approach

To arrive at the rating, Acuité has consolidated business and financial risk profiles of Hariyana International Private Limited (HIPL), Inducto Steel Limited (ISL), Hariyana Ship Breakers Limited (HSBL) and Hariyana Ship Demolition Private Limited (HSDPL); hereinafter referred to as Hariyana Group (HG). The consolidation is on account of similarity in the line of business, common management and significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Established presence of promoters in ship recycling industry**

  HG has established business presence of around three decades in the ship-breaking business. The promoter holds more than three decades of experience in the ship-breaking business. The business model entails acquiring old ships, dismantling them and recovering the investment through sale of scrap and parts. The long presence of the management in the industry has resulted in establishing healthy relationship with its customers. The promoters are well versed with price dynamics of ship breaking industry and has developed healthy relations with various ship aggregators, which helps in buying ships at competitive rates depending on the market scenario. The company has RINA certification, guidelines for safe and environmentally sound ship recycling. These green recycling companies are preferred over non-RINA certified companies. Further, HG enjoys location advantage as its operations are conducted at Alang (Gujarat), which is the world's largest ship breaking yard ensuring easy availability of ship, human resource and infrastructure. For, real estate activities, the group is entered in partnership with reputed players and had completed various real estate projects in partnership firms mainly in Bengaluru city.

  Acuité believes that the group will continue to benefit from its experienced management and long track record of operation in agrochemical industry.

- **Moderate financial risk profile and improved profitability in recent period**

  HG's financial risk profile is marked by healthy net worth, low gearing and moderate debt protection measures. The net worth of the group increased to Rs.257.63 crore as on 31 March, 2020. The gearing of the group stood at 0.14 times as on 31 March, 2020 as against 0.13 times as on 31 March, 2019. The total debt of Rs.36.42 crore consists of Rs.10.62 crore of working capital borrowing and Rs.25.80 crore of unsecured loans from promoters.

  In FY2020, the revenue of the group have declined by 49% and stood at Rs.360.32 Crore in FY2020 as against

Rs. 708.38 Crore in FY2019. This is mainly due to huge decline in steel prices in the global market. The EBITDA Margins also declined significantly to (7.74) percent for FY2020 as against 0.73 percent in FY2019. The PAT margin declined to (3.09) percent in FY2020 from 1.67 percent in FY2019.

In FY2021 (Provisional), although the group have achieved a similar level of revenue compare to the last financial year, however they have generated substantial profitability during the year. The group have performed well during the current financial year and in 10MFY2021 (Provisional), the group have achieved a total revenue of ~Rs.295.00 Crore with PBT of ~Rs.18.74 Crore. The group have achieved a revenue of ~Rs.350.00 Crore in FY2021 (Provisional).

TOL/TNW improved to 0.75 times in FY2020 as against 1.16 times in FY2019. Although the group have suffered severe losses in FY2020, they were able to generate a substantial amount of profit in FY2021 and the same is expected in FY2022 due to continuous increase in steel prices.

Acuité believes that the financial risk profile of the group will remain moderate over the medium term on account of high adjusted TOL/TNW and debt-to-equity.

Weaknesses

- **Significant exposure to real estate segment**

  HG has significant exposure in the real estate business through investments in various partnership firms. The slowdown in the real estate segment possess significant risk related to recoverability of the investment. The group have assured that they will not infuse any new/additional investment in the real estate segment.

  Acuité believes that any further increase in the real estate exposure will impact group's credit risk profile.

- **Vulnerability of margins to steel price fluctuations & Profitability susceptible to fluctuations in foreign exchange rates**

  HG purchases ship ranging from 10,000 MT to 60,000 MT which takes around six to twelve months for dismantling. During the dismantling period the inventory buildup is significantly high. The price of the steel is fluctuating and any adverse movement in the price will impact its profitability margin.

  The vessel purchase transaction is typically denominated in USD and is generally backed by 90-360 days of letter of credit. Moreover, the scrap sales are typically in the domestic market with realizations being denominated in the Indian Rupee. Consequently, HG remains exposed to any adverse movement in foreign currency exchange rate. Any upward revision in the dollar-rupee exchange rate increases the purchase cost of the vessels. Though the group uses forwards to hedge its forex risk, the cover is taken based on management expectations on forex movement over a long duration of LC ranging from 90 to 360 days. Further, the group is also exposed to environmental and regulatory risk as the ship-scrapping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the laborers and violation of human rights.

Rating sensitivity

- Decline in revenue and profitability in FY2020 due to steep decline in steel prices.
- Significant exposure to real estate segment

Material Covenant

None

Liquidity position: Adequate

The group has adequate liquidity marked by high net cash accruals to its maturing debt obligations. Although in FY2020, the group have suffered a loss but in FY2021 the group is expected to generate a net cash accrual of Rs.21.28 Crore. The cash accruals of the company are estimated to remain in the range of around Rs.22 Crore to Rs.24 Crore during FY2021-23 against no CPLTD due to absence of any long term loan. Although, company's working capital operations are moderately intensive marked by gross current asset (GCA) days of 148 days in FY2020. However the average utilization of bank limits stood low at ~3 per cent in the last six months ending January, 2021. Company maintains unencumbered cash and bank balances of Rs.0.89 Crore as on 31 March 2020. The current ratio stands low at 0.89 times as on 31 March 2020. Low current ratio is only because of undervaluation of inventory at the end of the financial year as the market price were at its lowest.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook in the medium term on account of the management's extensive experience in the ship breaking business. The outlook may be revised to 'Positive' in case of higher than expected increase in revenues and operating margins while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or stretched liquidity position on account of any adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates. Further, any fund diversion in unrelated businesses will have negative bias on the rating.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	360.32	708.28
PAT	Rs. Cr.	(11.14)	11.84
PAT Margin	(%)	(3.09)	1.67
Total Debt/Tangible Net Worth	Times	0.14	0.13
PBDIT/Interest	Times	(2.05)	5.76

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entities- https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Criteria- https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
26-Sept-2019	Proposed Bank Facility	Long term	45.00	ACUITE BBB-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Name of the Bank	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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