



Press Release
Inducto Steels Limited
December 19, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+ Stable Downgraded Negative to Stable	-
Bank Loan Ratings	80.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to ‘**ACUITE BB+**’ (read as **ACUITE double B plus**) from ‘**ACUITE BBB-**’ (read as **ACUITE triple B minus**) on the Rs. 20.00 Cr. long term bank facilities and its short-term rating to ‘**ACUITE A4+**’ (read as **ACUITE A four plus**) from ‘**ACUITE A3**’ (read as **ACUITE A three**) on the Rs. 80.00 Cr. short term bank facilities of Inducto Steel Limited (ISL).

The Outlook has been revised from ‘**Negative**’ to ‘**Stable**’.

Rationale for Downgrade

The downgrade in the rating considers deterioration in the operating performance and overall business risk profile of the group. Hariyana Group (HG) revenue for FY2024 declined to Rs.326.77 Cr. from Rs.379.68 Cr. in FY2023 and operating margin declined to 0.04% in FY2024 from 0.25% in FY2023. Also, the revenue is expected to further deteriorate in the current financial year on account of headwinds in the ship breaking industry, HG has reported revenue of ~Rs.85.00 Cr. in 6MFY25. Furthermore, a significant portion of HG’s network is invested in entities having exposure to real estate segment, exposing the group to risks related to real estate industry. Also, HG has LC’s worth around Rs.39.94 Cr. due for retirement towards the end of FY2025.

Going forward, the ability of the group to improve its operating performance along with profitability margin and timely retirement of LCs will remain a key monitorable.

About the Company

Incorporated in 1988, Inducto Steel Limited (ISL) is public limited company listed at BSE and engaged 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.

About the Group

Hariyana Group is promoted by Mr. Shantisarup Raniwal and primarily engaged in ship breaking and steel trading business. Besides, the group is also engaged in the real estate segment by undertaking real estate development projects in partnership firms and JVs as well as investment in real estate firms. The ship breaking activity for all the group companies is carried out at Alang-Sosiya Coastline in Gujarat. The group has its registered office at Nariman Point, Mumbai. The group undertakes its ship breaking activity through three companies; viz; Inducto

Steel Limited, Hariyana Ship Breakers Limited, and Hariyana Ship Demolition Private Limited. Its fourth company, Hariyana International Private Limited is involved into trading of metals.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 in the view of common management, strong operational and financial linkages between the entities and similar line of business.

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 and the promoter holds more than three decades of experience in the said business line. 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 have 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. However, presently the overall ship breaking industry is experiencing downturn on account of low availability of ships for dismantling globally on account of continuing geo-political tensions, such as Russia-Ukraine conflict and disruptions in the middle eastern shipping routes coupled with rising freight rates further limiting the incentive for shipowners to retire vessels impacting supply to shipbreaking yards.

For, real estate activities, the group has entered into partnership with reputed players and have 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 the ship demolition industry, however, the operating performance is expected to remain subdued in the near term on account of headwinds in the shipbreaking industry.

Moderate financial risk profile

HG's financial risk profile is moderate, marked by below unity gearing and moderate debt-protection metrics. The tangible net worth of the group stood at Rs.283.76 Cr. as on 31 March 2024 as against Rs.281.81 Cr. as on 31 March 2023. The net worth has improved on account of accretion of profits to reserves. The gearing level of the group is healthy and stood at 0.13 times in FY2024 as against 0.21 times in FY2023. However, ~92% of HG's network as of March 31, 2024, remains invested in entities engaged in real estate business. The total debt of the group stood at Rs.36.80 Cr. as on March 31, 2024. The debt comprises of Rs.0.11 Cr. of long-term debt, Rs.23.78 Cr. of USL from directors/promoters, Rs.12.77 Cr. of short-term debt and Rs.0.11 Cr. of CPLTD. Interest Coverage Ratio (ICR) stood moderate at 1.43 times for FY2024 against 2.27 times for FY2023. Debt Service Coverage Ratio (DSCR) stood moderate at 1.48 times for FY2024 against 1.76 times for FY2023. The total outside liabilities to tangible net worth (TOL/TNW) of the company is healthy and stood at 0.20 times in FY2024 as against 0.81 times in FY2023. The Debt/EBITDA levels stood at 2.66 times in FY2024 as against 4.64 times in FY2023.

Going ahead, the ability of the group to avoid any deterioration in its financial risk profile on account of expected subdued operating performance will remain a key monitorable.

Weaknesses

Deterioration in operating performance

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 prices of the steel are fluctuating and any adverse movement in the prices impacts HG's profitability margin. During FY2024, the revenues declined to Rs. 326.77 Cr. against Rs. 379.68 Cr. in FY2023. Despite a marginal improvement in price realizations, volumes declined in FY2024. The average realisation price stood at Rs. 50975/MT in FY2024 against Rs. 48624/MT in FY2023. Group's overall operating margins declined to 0.04 percent in FY2024 against 0.25 percent in FY2023.

Further, in 6MFY25, the group has reported revenue of ~Rs.85 Cr and overall operating performance is expected to remain subdued in FY2025 reflecting the broader challenges faced by the shipbreaking industry and also the group currently has only one ship which is being dismantled in Inducto Steel Limited.

Going ahead, the ability of the group to improve its scale of operations and profitability will remain a key monitorable.

Susceptibility of profitability towards volatility in forex rates and steel prices along with exposure to environmental and regulatory risks

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 prices of the steel are fluctuating and any adverse movement in the prices impacts HG's 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's expectations on forex movement over a longer duration of LC ranging from 90 to 360 days. Further, the group is also exposed to environmental and regulatory risk as the ship-scraping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the labourers and violation of human rights.

Significant exposure to real estate segment

HG has significant exposure in the real estate business through investments in various partnership firms. The group has invested around Rs. 256 Cr. into the real estate segment through its Partnership firms. The slowdown in the real estate segment possesses significant risk to HG towards recovery of the investment. Acuité believes that any further increase in the real estate exposure may impact group's credit risk profile.

Rating Sensitivities

- Increase in scale of operations along with improvement in the operating profitability
- Any significant increase in exposure towards real estate segment
- Timely retirement of the LCs.

Liquidity Position

Adequate

The group has adequate liquidity considering that it does not have any major long-term borrowings and any significant immediate repayments to be serviced. The net cash accruals stood at Rs. 4.84 Cr. as against repayment obligations of around Rs. 0.16 Cr. during FY2024. However, the group largely relies on LC borrowings and around Rs. 39.94 Cr. of LCs stand due for repayment towards the end of FY2025. The group maintains unencumbered cash and bank balances of Rs.1.54 Cr. as on March 31, 2024. The current ratio is healthy and stood at 1.51 times in FY2024. The working capital limits are moderately utilized as evident from ~20.18% for fund-based facilities and non-fund-based facilities stood at ~13.59% in the last 12 months ending October 2024.

Going ahead, the liquidity position of the group is expected to remain adequate in near future on account of moderate repayment obligations in the near term and buffer available from unutilised working capital limits.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	326.77	379.68
PAT	Rs. Cr.	2.28	2.21
PAT Margin	(%)	0.70	0.58
Total Debt/Tangible Net Worth	Times	0.13	0.21
PBDIT/Interest	Times	1.43	2.27

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2023	Letter of Credit	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	55.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Negative (Reaffirmed)
23 Aug 2022	Letter of Credit	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
25 May 2021	Proposed Long Term Bank Facility	Long Term	45.00	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE BB+ Stable Downgraded Negative to Stable (from ACUITE BBB-)
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	25.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	55.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No	Company Name
1	Hariyana Ship Breakers Limited
2	Hariyana Ship Demolition Private Limited
3	Hariyana International Private Limited
4	Inducto Steel Limited

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About Acuité Ratings & Research

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