

Press Release

Haryana Ship Demolition Private Limited

September 26, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.200.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.200.00 crore bank facilities of HARIYANA SHIP DEMOLITION PRIVATE LIMITED (HSDPL). The outlook is '**Stable**'.

Incorporated in 1995, HSDPL engaged in ship breaking business in the Alang-Sosiya belt of Bhavnagar region of Gujarat with plot size of 6000 square meters having frontage of 50 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar.

Analytical Approach

To arrive at the rating, Acuite 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 group has successfully dismantled more than 400 ships till March 31, 2019 with capacity ranging from 1,000 light deadweight tonnage (LDT) to very large crude carriage (VLCC) of around 48,000 LDT. HG is currently dismantling ships costing Rs.354.09 crore, which is expected to show adequate revenue visibility over the near term. 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.

- **Optimal management of LC maturity**

HG procures ships for dismantling against Letter of Credit (LC) facility, which keeps liquidating in tranches. The LC payment is done through sales proceeds from selling the scrap, which starts from first month of dismantling activity, ensuring that the group has regular cash inflow and does not end up with large inventory to sell around the LC maturity. The group is currently dismantling eight ships weighing between 6,000-42,000 tons bought at a combined cost of Rs.354.09 crore during FY2019. The same is funded out of letter of credit (LC) of Rs.354.09 crore. The dismantling of the ship is expected to be completed by March 2020. HG is methodically accumulating the sale proceeds for

retirement of LCs.

Acuite believes that HG's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

- **Moderate financial risk profile**

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.268.82 crore as on 31 March, 2019 as against Rs.256.96 crore in the previous year on account of increasing profitability and operating income, leading to higher accretion to reserves. The gearing of the group stood at 0.13 times as on 31 March, 2019 as against 0.04 times as on 31 March, 2018 mainly due increase in unsecured loan from promoters. The total debt of Rs.34.96 crore consists of Rs.8.66 crore of working capital borrowing and Rs.26.30 crore of unsecured loans from promoters. Although, the total outstanding LC limit as on 30 June 2019 is ~Rs.223.00 crore.

The moderate improvement in profitability levels has resulted in healthy net cash accruals of Rs.13.05 crore during 2017-19, leading to moderate debt protection measures. The interest coverage ratio stood at ~5.77 times in FY19 as against 3.32 times in the previous year. Increase in turnover during FY19 vis-à-vis FY18 and improvement in operating margin from 0.99 percent in FY18 to 1.06 percent in FY19 has resulted in the cash accruals increasing from Rs.11.46 crore in FY18 to Rs.13.05 crore in FY19. TOL/TNW, though improved, however remained moderate at 1.16 times in FY19. Although, the adjusted TOL/TNW remains significantly high and remains one of the constraining factors.

Acuite believes that the financial risk profile of the group will remain moderate over the medium term on account of high adjusted TOL/TNW and adjusted 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.

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

- **Vulnerability of margins to steel price fluctuations**

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.

- **Profitability susceptible to fluctuations in foreign exchange rates**

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 realisations 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-scraping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the laborers and violation of human rights.

Liquidity Position: Adequate

HG has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of ~Rs.11.00 crore – Rs.14.50 crore during the last three years through 2018-2019, while there are no maturing debt obligations over the same period. The cash accruals are estimated to remain at around Rs.11.00-12.00 crore during 2019-21. The group's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 158 in FY 2019. HG maintains unencumbered cash and bank balances of Rs.1.08 crore as on March 31, 2019. The current ratio stood moderate at 1.00 times as on March 31, 2019.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals but is highly dependent on the sale of scrap as per the LC retirement cycle.

Outlook: Stable

Acuite 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.

Rating Sensitivities

- Efficient management of working capital cycle resulting in timely buildup of liquid fund for LC retirement.
- Timely recovery from the real estate investments made by the group.
- Increase in investment in unrelated business activities affecting the liquidity position.

Material Covenants:

None

About the Group

HG is a Mumbai-based group promoted by Mr. Shantisarup Reniwal. It includes four companies i.e. HIPL, HSBL, HSDPL and ISL. The group is primarily engaged into ship-breaking and steel trading. The group is also engaged in the real estate segment, undertakes inter- corporate lending activities, and develops residential real estate projects. HSBL, HSDPL and ISL are engaged in ship breaking activities and had recycled around 400 ships till March 31, 2019 with capacity ranging from 1,000 light deadweight tonnage (LDT) to very large crude carriage (VLCC) of around 48,000 LDT. HG has three ship breaking yards under ISL, HSDPL and HSBL with a combined yard size of 12,570 square meters located at Alang-Sosiya Coastline in Gujarat.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Actual)	FY18 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	635.76	419.47	436.46
EBITDA	Rs. Cr.	6.77	4.13	-1.58
PAT	Rs. Cr.	11.85	10.37	11.53
EBITDA Margin	(%)	1.06	0.99	-0.36
PAT Margin	(%)	1.86	2.47	2.64
ROCE	(%)	6.43	6.45	13.13
Total Debt/Tangible Net Worth	Times	0.13	0.04	0.07
PBDIT/Interest	Times	5.77	3.32	2.10
Total Debt/PBDIT	Times	1.78	0.51	0.66
Gross Current Assets (Days)	Days	158	391	369

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00*	ACUITE BBB-/ Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A3

* Fully interchangeable with letter of credit facility. However, total facility should not exceed Rs.200.00 crore at any point of time.

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About Acuité Ratings & Research:

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