

Press Release

Hariyana Ship Demolition Private Limited

August 23, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	165.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	35.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its 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**'.

Rationale for rating reaffirmation

The rating continues to draw comfort from groups' long track record of operations and extensive experience of the management along with group's established market position in the ship breaking industry. Further, the rating considers HG's moderate financial risk profile marked by low gearing and moderate debt coverage indicators. The rating also takes into account the group's adequate liquidity and its improved working capital cycle during FY2022. The rating is however constrained by limited scale of operations, vulnerability of margins to steel price fluctuations and susceptibility of profits to volatility in scrap prices and fluctuations in the forex rates.

About Company

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.

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.

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 because of similarity in the line of business, common management, significant operational and financial linkages.

Key Rating Drivers

Strengths

Established presence of promoters in the 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 mentioned business line. The business model entails acquiring of 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 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.

Moderate financial risk profile and improved operating performance

HG's financial risk profile is moderate marked by low gearing, and comfortable debt coverage indicators. The gearing stood stable at 0.04 times for last two years ended as on March 31, 2022. The total fund-based debt of the group stood at around Rs. 10.24 Cr. as on March 31, 2022. Apart from this, HG relies on non-fund-based bank facilities like LC in order to undertake its business activities. Further, the debt protection metrics have stood moderate with interest coverage ratio and DSCR at 4.19 times for FY2022 against 4.01 times in FY2021 and 1.91 times during FY2022 and 3.02 times in FY2021. The group reported improved operating performance during FY2022 marked by a revenue growth of around 30 percent over the previous year. HG reported revenues at Rs. 414 Cr during FY2022 against Rs. 319 Cr. during FY2021. The growth has been largely contributed by stabilisation in the steel prices which has also helped HG in achieving better operating margins. The operating margins during FY2022 stood at 4.06 percent against 3.56 percent during FY2021. Further the group generated cash accruals of around Rs.14 Cr in FY2022 against Rs.12.39 Cr. during FY2021.

Acuité believes that the group will maintain a moderate financial risk profile over the medium term in absence of any external long-term borrowings.

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 possesses significant risk to HG towards recovery of the investment. The group has however no further plans to infuse any new/additional investment in the real estate segment and has been withdrawing its

investments gradually. 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 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 laborers and violation of human rights.

Rating Sensitivities

- Increase in scale of operations thereby maintaining the operating profitability
- Significant exposure to real estate segment

Material Covenants

None

Liquidity Position Adequate

The group has an adequate liquidity marked by net cash accruals to the tune of Rs. 14 Cr. against obligations of around Rs. 3.29 Cr. during FY2022. The cash accruals of the company are estimated to remain in the range of around Rs.17 Cr to Rs.19 Cr during FY2021-23 against no major maturing obligations as currently the group does not have any long-term obligations in its bucket. However, the group relies on non-fund based borrowings like LC etc in order to meet its daily business requirements and timely availability of funds for retirement of the maturing LCs remains critical. Further, company's working capital operations have improved marked by gross current asset (GCA) days of 116 days in FY2022 against 152 days in FY2021. The average utilization of working capital limits stood low at ~7 per cent in the last twelve months ending June, 2022. The current ratio improved and stood at 1.27 times as on 31 March 2022 against 1.05 times as on March 31, 2021.

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 and the group's stable operating performance. 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 unfavourable movements in foreign exchange rates. Further, any fund diversion in unrelated businesses will have negative bias on the rating.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	414.24	319.62
PAT	Rs. Cr.	11.72	10.36
PAT Margin	(%)	2.83	3.24
Total Debt/Tangible Net Worth	Times	0.04	0.03
PBDIT/Interest	Times	4.19	4.01

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

CRISIL wide its press release dated March 30, 2022 has continued to report the rating under Issuer

not co-operating category

Any Other Information

Not Applicable

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 May 2021	Letter of Credit	Short Term	90.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	75.00	ACUITE A3 (Reaffirmed)
26 Sep 2019	Letter of Credit	Short Term	150.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	50.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3 Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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