

Press Release
Hazel Infra Limited

April 21, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	-	ACUITE A4 Assigned
Total Outstanding Quantum (Rs. Cr)	75.00	-	-

Rating Rationale

Acuite has assigned its short term rating of 'ACUITE A4' (read as ACUITE A Four) on the Rs. 75.00 Cr. bank facilities of Hazel Infra Limited (HIL).

Rating Rationale

The rating assigned reflects HIL's acquisition of Reliance Naval and Engineering Limited (RNAVAL) under the resolution plan. HIL is to engage in the manufacturing of defence ships, ship repairs, ship recycling that forms the core business of RNAVAL. The rating is however constrained by the nascent stage of current operations in the revival plan, the ability of the company to repay the outstanding agreed debt over the 5 year term and the regulatory risk surrounding the work sphere of RNAVAL. Further, the company has applied for extension of upfront payment of Rs. 200 Cr as per the resolution plan which was due in March 2023. The extension request placed before the court is for a period of 3 months, i.e. June 2023.

About the Company

HIL is an SPV of Swan Energy Limited and Hazel Mercantile Limited, wherein, Swan Energy Limited holds 74% of the equity stake and Hazel Mercantile Limited holds 26% equity stake in HIL. The SPV is an investment arm in the form of a joint venture between Swan Energy Limited and Hazel Mercantile Limited.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of HIL to arrive at the rating.

Key Rating Drivers

Strengths

Niche area of operations & In-principle agreement with Naval Engineering Services (NES)

RNAVAL is engaged in the manufacturing of defence ships and submarines along with ancillary activities such as ship repairs, ship recycling. RNAVAL is the first company in the private sector to be engaged in defence shipbuilding in India, thus awarding it a competitive edge over the other probable entrants. The HIL has acquired RNAVAL and entered into an in-principle agreement with NES for the manufacturing of the ships and submarines. NES is a highly reputed company with requisite experience and strength in the field of design, construction, repair, modernisation / refurbishment of full range of conventional and strategic naval assets including ships and submarines for Navy & Coast Guard.

Acuité believes that the company may benefit from the in-principle agreement with NES to revive RNAVAL.

Weaknesses

Nascent stage of operations

HIL's acquisition of RNAVAL under the resolution plan is towards revival of operations of RNAVAL. However, the operations are at a nascent stage, where, HIL is in the process of reviving the operations of RNAVAL. Further, the company is to repay the debt of approx. Rs. 2,040 Cr over a period of five years starting April 2023 which is to be funded partially through promoters contribution (20.28%), debt funding (18.59%) and balance through operations of RNAVAL (61.12%).

Acuité believes that the ability of HIL to ensure revival of RNAVAL and the subsequent repayment of outstanding debt within the committed timeline will remain a key rating sensitivity.

Exposure to Regulatory Risk

Indian defence industry is a highly government regulated industry. There have been continuous regulatory changes in terms of the government's policies towards manufacturing defence assets. The industry is expected to remain highly regulated by the government going forward, exposing the business risk profile to adverse regulatory changes.

Acuité believes that any government regulation could have significant impact on the operating income and profitability of the company.

Extension of Upfront Payment

The company has applied in the NCLT to grant the company an extension of the upfront payment of Rs. 200 Cr as per the resolution plan. Acuite has been informed that the company has requested the extension with the COC, wherein, the COC has agreed for the extension, and the matter is before the NCLT for final approval.

Acuite believes that the request for extension of the upfront payment is a pivotal factor in the resolution plan and will remain a key sensitivity.

Rating Sensitivities

- Ability to revive the operations and repay the debt obligations as per resolution plan schedule
- Government regulations impacting the industry

Material covenants

None

Liquidity Position

Adequate

The company holds in bank deposit an amount of Rs. 7.50 Cr as margin against the performance bank guarantee of Rs. 75.00 Cr. However, the company does not have any long term debt obligations. Further, the company as on March 31, 2022, holds cash and bank balances to the tune of Rs. 0.32 Cr.

Acuite believes that the company's liquidity position is likely to remain adequate over the medium term with the backing of the sponsors.

Outlook

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.01)	0.00
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	72.39	84.54
PBDIT/Interest	Times	0.00	0.00

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A4 Assigned

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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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