VMS Industries Limited

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	138.00	CARE BBB-; Stable / CARE A3	Reaffirmed
Short-term bank facilities	5.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of VMS Industries Limited (VIL) derives strength from substantial growth in scale of operations and improved profit margins in FY24 (audited, FY refers to April 01 to March 31) and H1FY25 (unaudited, refers to April 01 to September 30). Ratings continue to derive strength from experienced promoters with long track record of operations in the ship recycling industry, entity's presence at strategic location in Alang-Sosiya region - one of the largest ship-recycling yards in India and NK certification of ship recycling facility leading to low procurement of ships. Ratings also take cognisance of adequate liquidity and letter of credit (LC) coverage ratio.

However, ratings are constrained due to VIL's moderate net worth base and debt coverage indicators which although improved with better margins. Ratings further continue to remain constrained due to exposure to volatile steel prices and foreign exchange rate fluctuations, cyclical ship-recycling industry with its regulatory and environmental risks and high competition from neighbouring countries.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling up of operations with total operating income (TOI) growing to over ₹200 crore through core ship recycling and trading activity with improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 3% on a sustained basis.
- Improvement in LC coverage ratio above 2x and total debt to gross cash accruals (TD/GCA) below 10x on a sustained basis.

Negative factors

- Deterioration in LC coverage below 1.10x.
- Substantial increase in advances to group company, impacting the liquidity profile.

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of VIL is "Stable" considering experienced promoters in the industry and its location advantage with presence in the Alang-Sosiya region.

Detailed description of key rating drivers:

Key strengths

Significant growth in scale of operations and profitability

The scale of operations as marked by TOI increased substantially by 89% to ₹267.87 crore in FY24 driven by the execution of orders from Welspun Corporation Limited (WCL, rated CARE AA; Positive/ CARE A1+) for dismantling and lifting of ship scrap and increase in trading ferrous and non-ferrous scrap items in FY24. In June 2023, VIL has entered contract with WCL to demolish ~48,000 MT of partly built ships blocks and bulk carrier. This order was further expanded and accompanied by two additional orders totalling ~16,000 MT, ensuring revenue visibility for FY25. Consequently, in H1FY25, TOI remained at ₹203.96 crore.

These contracts include fixed purchase price which was significantly lower than market steel selling price resulting in better profit margins. PBILDT margin remained at 2.83% in FY24 against 0.47% in FY23. VIL reported profit after tax (PAT) margin of 2.33% in FY24 against 1.67% in FY23. In H1FY25, VIL reported PBILDT of 1.61%.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Experienced promoters with long track record of operations in the ship recycling industry
VIL's promoter is one of the oldest in the ship-recycling industry of Alang, Gujarat and has successfully run the business through different business cycles. Manoj Kumar Jain (chairperson and managing director) of VIL is a qualified chartered accountant with almost three decades of experience in the ship-recycling industry and ferrous and nonferrous metal trading business. Promoters has promoted another company VMS TMT private limited (VTPL) which is engaged in manufacturing of TMT bars.

Presence at Alang-Sosiya region which is one of the largest ship-recycling yards
VIL's yard is located at Alang-Sosiya belt, which is considered to be one of the world's largest ship-recycling yards and caters ~90% of India's ship-recycling activity. The unique geographical features of the area, including a high tidal range, wide continental shelf, adequate slope, and mud-free coast, are ideal for even large-sized ships to be beached easily in high tide. It accommodates ~150 plots spread over ~10-km-long stretch along the seacoast of Alang. VIL owns one plot of ~2700 square metres to carry out its ship recycling business at Alang, which is leased out by Gujarat Maritime Board (GMB).

NK class ship recycling facility
VIL complied to "Green recycling - Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by IMO resolution MEPC.210 (63)" which is certified by Nippon Kaiji Kyokai, Tokyo, having validity till April 2025. These compliances are in relation to adopting more environment-friendly practices and is expected to result in relatively lower procurement cost/attract certain class of sellers as major shipping players give preference to companies with ship recyclers with green recycling certificate.

Key weaknesses

Moderate net worth base and debt coverage indicators
VIL's capital structure remains moderately leveraged marked by overall gearing of 1.63x as on March 31, 2024, against 0.50x as on March 31, 2023, due to higher outstanding LC related to ship recycling and trading activities. The outstanding debt as on balance sheet date majorly comprise LC and cash credit which is contingent upon timing of ship procurement. The net worth remained moderate at ₹63.90 crore as on March 31, 2024. VIL has provided advances of ₹27.93 crore to its group entity VTPL, adjusted overall gearing remains at 2.90x as on March 31, 2024, considering this. However, overall gearing improved to 0.60x as on September 30, 2024, following a right issue worth ₹28 crore raised in April 2024 for working capital requirement. Debt coverage indicators improved with improvement in profitability marked by interest coverage ratio of 4.60x in FY24 against 0.41x in FY23. However, it remained at 1.17x in H1FY25 with increase in finance cost.

Exposure to adverse movement in steel prices and forex rates
The steel prices volatility driven by demand and supply conditions in global and local markets expose VIL to adverse price movement on the uncut ship inventory and unsold inventory of steel scrap held by the company (which generally remains minimal). The entity uses LC facility to purchase old ships. Since the transactions are denominated in foreign currency, the entity is exposed to forex risk in the LC Usance period, as the entity's revenue is denominated in Indian Rupee (INR). However, entity is doing hedging as per market situation thus mitigating exposure to certain extent.

Cyclicality associated with ship recycling industry and competition of global peers
The ship recycling industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight rates in the global economy. Better availability of old ships for recycling is ensured at the time of recession and when freight rates are low which makes it economical to dismantle the ship rather than continue to operate it. However, ship availability is adversely impacted due to high freight prices in FY23 and FY24. Going further, with decline in freight rates, better ship availability is expected from CY25 onwards. Indian ship-recycling yard face intense competition from neighbouring countries such as Bangladesh and Pakistan due to availability of low wage labour, tax occupational health, environment-related regulations, and larger yards giving better bargaining power to yard owners.

Exposure to regulatory and environment hazard risk
The ship-recycling industry is highly regulated with strict working and safety standards to be maintained by ship-breakers for their labourers and environmental compliance. Government of India enacted the Recycling of Ships Act, 2019 ("Act") for the regulation of recycling of ships by setting certain standards and laying down the statutory mechanism for enforcement of such standards and related matters. The act imposes a statutory duty on ship recyclers to ensure safe and environmentally sound removal and management of hazardous materials from a ship. It further imposes an obligation on a ship recycler to ensure that there is no damage caused to the environment due to recycling activities at the ship recycling facility. Thus, adverse circumstances or event may affect the entities' business operations.

Liquidity: Adequate
VIL's liquidity remained adequate characterised by low combined average fund based and non-fund based working capital utilisation which remained at 17% for the last 12 months ended September 30, 2024. LC coverage ratio remained adequate at 1.48x as on March 31, 2024, against 1.25x as on March 31, 2023. As on September 30, 2024, LC coverage continue to remain adequate, indicating sufficient cushion in inventory and fixed deposits against its LC obligations. Free cash and bank balance remained at ₹6.79 crore as on March 31, 2024. The operating cycle remained comfortable at negative of 11 days in FY24 against positive 27 days in FY23. Current ratio remained at 1.08x as on March 31, 2024, against 2.44x as on March 31, 2023, mainly due to increase in the amount of outstanding LC backed creditors related to ship recycling orders of WCL.

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)
[Wholesale Trading](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

VMS Industries Limited (VIL) was originally incorporated as 'Varun Management Services Private Limited' in 1991 and was reconstituted as a limited company on January 2010. VIL came out with an initial public offering in June 2011 and became a listed public limited company. VIL was earlier engaged in providing consulting and information technology (IT) services like computerisation of land revenue records, ration cards and ration shops for Bhavnagar Municipal Corporation and providing gas supply to the ship recycling units at Alang, Gujarat. However, since FY10, it is engaged in ship breaking/recycling activity at Alang, Gujarat, which is the leading centre for ship breaking and recycling in Asia. VIL was allotted berth numbers 159 and 160, which was later on merged as 160M to handle a peak level of 70,000 LDT (Light Displacement Tonnage). VIL is the flagship company of VMS group. Another group company VMS TMT Private limited is engaged in manufacturing TMT bars and sells this under brand name 'Kamdhenu'.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	141.42	267.87	203.96
PBILDT	0.67	7.57	3.29
PAT	2.37	6.25	1.32
Overall gearing (times)	0.50	1.63	0.60
Interest coverage (times)	0.41	4.60	1.17

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	138.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	5.50	CARE A3

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	138.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (26-Dec-23)	1)CARE BBB-; Stable / CARE A3 (06-Jan-23) 2)CARE BBB-; Stable / CARE A3 (05-Apr-22)	1)CARE BBB-; Stable / CARE A3 (11-Jun-21)
2	Non-fund-based - ST-Credit Exposure Limit	ST	5.50	CARE A3	-	1)CARE A3 (26-Dec-23)	1)CARE A3 (06-Jan-23) 2)CARE A3 (05-Apr-22)	1)CARE A3 (11-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities- Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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