Hariyana Ship Breakers Limited

July 29, 2019

Rating

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	225.00	**CARE BB; Stable/CARE A4 [Double B; Outlook: Stable/A Four]**	**Reaffirmed**
Total	**225.00 (Rupees Two Hundred and Twenty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

For, arriving at the ratings of Hariyana Ship Breakers Limited (HSBL), CARE has considered combined financial and business profile of four companies namely HSBL, Hariyana Ship Demolition Private Limited (HSDPL), Hariyana International Private Limited (HIPL) and Inducto Steel Limited (ISL) henceforth referred as Hariyana group (HAG), as they have common promoters and management i.e. Reniwal family. Further, these companies are in similar line of business and have fungible cash flow.

The ratings assigned to the bank facilities of HAG continue to remain constrained on account of significant investment and loans and advances extended to entities engaged in cyclical real estate industry, fluctuating profitability and moderately leveraged capital structure and debt coverage indicators. The ratings further continue to remain constrained due to susceptibility of its profitability to volatile raw material prices, adverse movement in forex rates and exposure to regulatory and environment hazard risk.

The ratings however continue to derive strength from vast experience of promoters, established track record of operations and group's presence in one of the largest ship breaking yard at Alang-Sosiya belt. The ratings also factors in increase in turnover albeit decline in its profitability during FY19 (FY refers to the period from April 1 to March 31).

The ability of group to increase its scale of operations and profitability with improvement in its capital structure while reducing its exposure to real estate sector and timely recover/derive envisaged benefit shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant investment and loans and advances extended to entities engaged in cyclical real estate industry: On combined basis, HAG has a significant exposure in cyclical real estate sector marked by its investment in various partnership firms and JVs which had increased from Rs. 245.76 crore as on March 31, 2018 to Rs. 255.31 crore as on March 31, 2019 despite write-off of Rs.9.59 crore during FY19. It forms 95% of its combined networth of Rs.268.82 crore as on March 31, 2019, reflecting major portion of funds being deployed in real estate segment and thereby timely realisation of the same is crucial for its credit perspective. Majority of the funds are deployed by the company in various real estate projects in Bengaluru in residential sector.

Moderate capital structure and debt coverage indicators: Capital structure improved during FY19 on back of decline in LC backed acceptances with liquidation of inventories (inventory declined from Rs. 341.00 crore as on March 31, 2018 to Rs. 196.95 crore as on March 31, 2019). Similarly debt coverage indicators also improved in FY19 wherein interest coverage ratio stood at 5.93 times during FY19 compared to 4.08 times during FY18. Total Debt to GCA ratio improved from 39.63 times during FY18 to 18.66 times during FY19.

Cyclicality associated with ship breaking industry coupled with competition from global peers: The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight rates in the global economy. These freight rates take into account the global demand of seaborne transport and supply of new vessels which in turn depends on global merchandise trade. 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. Indian ship-recycling yard face intense competition from the neighbour countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and partial enforcement.

Exposure to volatile steel/scrap prices and forex rates: The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes HAG to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap held by the group.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The HAG also faces forex risk, as payment to be made to the ship supplier in foreign currency. There is risk of difference in the exchange rate at which LC is opened by the HAG and exchange rate at which actual payment is to be done exposing its profitability to adverse foreign exchange fluctuations. On combined basis, HAG had incurred such forex losses of Rs.10.69 crore in FY19 as compared to Rs.3.80 crore in FY18.

Exposure to regulatory and environmental hazard risk: Exposure to regulatory and environment hazard risk The ship-breaking industry in the Alang-Sisoya belt of Gujarat is highly regulated with strict working and safety standards to be maintained by the ship-breakers for their labourers and environmental compliance. Furthermore, the industry is prone to risks related to pollution as it involves dismantling of ships which contain various hazardous substances like lead, asbestos, acid, hazardous paints, etc. that have to be properly disposed-off as per the regulatory guidelines.

Liquidity Analysis: The HAG's overall liquidity remained stretched indicated by its below unity LC coverage which stood at 0.86 times as on March 31, 2019 as compared to 0.95 times as on March 31, 2018 representing cash inflow is tightly matched with LC repayment obligations. The same improved to 0.90 times as on June 30, 2019. The current ratio stood at 0.91 times as on March 31, 2019. Average fund based and non-fund based working capital utilization remained at low at 3% and 55% respectively for past twelve month ended on June, 2019.

Key Rating Strengths

Experienced Promoters: Mr. Shanti Sarup Reniwal is the founder of the Hariyana Group. The promoters are engaged in the ship-breaking business for more than 30 years. Mr. Rajeev Reniwal, Mr. Sanjeev Reniwal and Mr. Rakesh Reniwal, sons of Mr. Shanti Sarup Reniwal have been associated with the company for over 15 years. Mr. Shanti Sarup Reniwal and his two sons Mr. Rajeev Reniwal and Mr. Rakesh Reniwal majorly look after the ship breaking business while Mr. Sanjeev Reniwal handles the real estate activities of the group. The management also has prior experience in real estate development through associate concerns.

Established and long track record of operations: HAG is engaged in ship breaking, real estate development, investment in real estate entities and trading of steel products. In 1981, the group ventured into ship breaking activity under the flagship company – HSBL and later on started other two companies. HSBL, HSDPL and ISL are engaged in ship breaking and had recycled around 400 ships till March 31, 2018 with capacity ranging from 1,000 light deadweight tonnage (LDT) to very large crude carriage (VLCC) of around 48,000 LDT reflecting its long and established track record of operations. Group's two entity viz. HSBL and HSDPL had up upgraded the infrastructure to comply to "Green recycling – ISO 30000:2009" which are certified by RINA S.P.A. in December, 2017. Later, ISL had also upgraded its plot during FY19. This compliance are in relation to the infrastructure and better environment friendly practices and results in lower procurement cost of ships for Group and a preference in ship recycling.
For, real estate activities group is entered in partnership with reputed players like Goyal Builders and Safal group. Group had completed various real estate projects in partnership firms mainly in Bengaluru city. For trading activities, HAG imports products like HR Coils and Plates and sells the same in domestic market.

Location of yard at Alang which has unique geographical features suitable for ship-breaking operations: The HAG's ship breaking yards are located at Alang-Sisoya belt which which constitutes nearly 90% of India's ship-breaking activities and it is India's largest ship-breaking cluster. The unique geographical features of the area include a high tidal range, wide continental shelf, adequate slope and a mud free coast. These conditions are ideal for a wide variety of ships to be beached easily during high tide. The cluster accommodates nearly 153 plots spread over around 10 km long stretch along the sea coast of Alang-Sisoya. Alang has been a consistent player in ship breaking and accounts for 98% of total ships recycled in India. It had demolishing close to 7,888 ships till April 30, 2019 comprises of 623.21 lakh LDT (Light dismantle tonnage).

Increase in scale of operations albeit decline in profitability: On combined basis, TOI of HAG had increased from Rs.431.72 crore to Rs.717.43 crore in FY19 on back of increased trading activity of HR coils, CR coils and MS steel by the group. However, revenue from ship breaking has remained stable in FY19 over FY18.
The Profit before Interest, Lease, Depreciation and Tax (PBILDT) margin had declined in FY19 to 2.78% in FY19 as compared to 5.20% in FY18 owing to factors like impact of volatile steel prices, forex losses and increased proportion of trading sales in total sales mix.

Analytical approach: Combined**.** For, arriving at the ratings of Hariyana Ship Breakers Limited (HSBL), CARE has considered combined financial and business profile of four companies namely HSBL, Hariyana Ship Demolition Private Limited (HSDPL), Hariyana International Private Limited (HIPL) and Inducto Steel Limited (ISL) henceforth referred as Hariyana group (HAG), as they have common promoters and management i.e. Reniwal family. Further, these companies are in similar line of business and have fungible cash flow.

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Rating Methodology-Trading Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Hariyana Ship Breakers Limited-HSBL
Incorporated in 1981, HSBL (CIN:L61100MH1981PLC024774) public limited company listed at BSE and is engaged in ship breaking business in the Alang-Sisoya belt of Bhavnagar region of Gujarat with plot size of 4185 square meters having frontage of 45 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar. HSBL is also engaged in Trading of Ferrous and Non-ferrous metal, Coils and investment in real estate firms

About the Group
Hariyana Group is promoted by Mr. Shantisarup Reniwal and primarily engaged in ship breaking business 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.

Brief Financials (Rs. crore)	Standalone of HSBL		Combined	
	FY18 (A)	FY19 (A)	FY18 (UA)	FY19 (UA)
Total operating income	174.78	395.71	431.72	717.43
PBILDT	18.80	14.31	22.45	19.93
PAT	9.81	8.14	10.37	11.85
Overall gearing (times)	2.49	0.68	1.76	0.91
Interest coverage (times)	4.81	18.54	4.08	5.93

A-Audited UA-Unaudited as financials are combined by analytical team

Status of non-cooperation with previous CRA: CRISIL has put the rating assigned to the bank facilities of Hariyana Ship Breakers Limited in to 'Issuer Not co-operating' vide press release dated July 25, 2018 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Letter of credit	-	-	-	225.00	CARE BB; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	225.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (22-Jun-18)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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