

Inducto Steel Limited

June 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term/ Short-term Bank Facilities	65.00	CARE BB; Stable/ CARE A4 [Double B; Outlook: Stable/A Four]	Assigned
Total	65.00 (Rupees Sixty Five Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For, arriving at the ratings of Inducto Steel Limited (ISL), CARE has considered combined financial and business profile of four companies namely ISL, Hariyana International Private Limited (HIPL), Hariyana Ship Breakers Limited (HSBL) and Hariyana Ship Demolition Private Limited (HSDPL) 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 is constrained on account of its exposure to cyclical real estate sector and financial risk profile marked by modest and fluctuating profitability with moderately leveraged capital structure and debt coverage indicators. The ratings are also 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, derive strength from experienced promoters, established and long track record of operations in ship breaking industry and its presence in one of largest ship breaking yard at Alang-Sisoya belt. The ratings also factors in its moderate scale of operations.

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 Weakness

Modest and fluctuating profitability with moderately leveraged capital structure and debt coverage indicators

On combined basis, HAG's Profit before Interest, Lease, Depreciation and Tax (PBILDT) margin remains modest due to low value additive nature of business apart from impact of volatile steel prices and forex rates.

Capital structure remained moderately leveraged marked by overall gearing of 1.76 times as on March 31, 2018 which had deteriorated on account of increase in LC backed acceptances with purchase of ships and trading goods (inventory increased from Rs.107.84 crore as on March 31, 2017 to Rs.341.36 crore as on March 31, 2018). However, PBILDT interest coverage ratio remained moderate at 3.94 times during FY18 improved from 2.21 times during FY17 with reduction in interest costs.

Exposure to cyclicity associate with real estate and ship breaking industry

The group also has significant exposure in real estate sector which is cyclical in nature marked by its investment in partnership firms and JVs which lead to liquidity risk for business operations. However, the Investment in Partnership firm (including JV) had decline to Rs.245.76 crore as on March 31, 2018 as against Rs. 321.39 crore as on March 31, 2017

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

leading to improvement in liquidity of the group. However, any future investment could impact its profile adversely and would be a rating sensitivity.

The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight index. The freight index is a function of global demand of seaborne transport and supply of new vessels which in turn depend on global merchandise trade. The Baltic Dry Index, which serves as one of the major freight indices, has shown increasing trend for the last two years ended 11MFY18, suggesting that the availability of old ships has decreased over this period.

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. The group also faces forex risk, as payment to be made by the firm to the ship supplier depends on the USD to INR exchange rate. There is risk of difference in the exchange rate at which LC is opened by the firm and exchange rate at which actual payment is to be done exposing its profitability to adverse foreign exchange fluctuations.

Exposure to regulatory and environment hazard risk

The ship-breaking industry in the Alang-Sosiya 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.

Key Rating Strengths

Experienced promoter

Mr. Shantisarup 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. Shantisarup Reniwal have been associated with the company for over 15 years and look after different business activities. 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 – Hariyana Ship Breakers Ltd. 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 entities viz. HSBL and HSDPL had upgraded the infrastructure to comply to "Green recycling – ISO 30000:2009" which are certified by RINA S.P.A. in December, 2017. ISL had also made application for RINA S.P.A. This compliance is 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 group's ship breaking yards are located at Alang-Sosiya belt which is considered to be one of the world's largest ship-breaking yards and caters to nearly 90% of India's ship-breaking activity. The unique geographical features of the area including a high tidal range, wide continental shelf, 15 degree slope, and a mud free coast are ideal for any size ships to be

beached easily during high tide. It accommodates nearly 171 plots spread over around 10 km long stretch along the sea coast of Alang.

Moderate Scale of operation

Over the years, total operating income of the group on a combined basis has remained moderate depending upon the availability of ship for cutting along with the volatility associated with steel prices. Total operating income of group stood at Rs. 433.10 crore for FY18 as against Rs.428.52 crore. In FY18, Ship breaking income forms 63% of TOI, Trading forms 32% and balance is from real estate, profits from JV and interest income.

Analytical approach: For, arriving at the ratings of Inducto Steel Limited (ISL), CARE has considered combined financial and business profile of four companies namely ISL, Hariyana International Private Limited (HIPL), Hariyana Ship Breakers Limited (HSBL) and Hariyana Ship Demolition Private Limited (HSDPL) henceforth referred as Hariyana group (HAG), as they have common promoters and management i.e. Raniwal 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](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Wholesale Trading](#)

[Rating Methodology-Steel Companies](#)

About the Company

Inducto Steel Limited- ISL

Incorporated in 1988, Inducto Steel Limited is public limited company listed at BSE and engaged in in ship breaking business in the Alang-Sosiya belt of Bhavnagar region of Gujarat with plot size of 2385 square meters having frontage of 45 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Apart from ship breaking business ISL also engaged in steel trading activities.

About the Hariyana Group

Hariyana Group is promoted by Mr. Shantisarup Raniwal 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 Financial:

Combined of Hariyana Group

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Prov.)
Total operating income	428.52	433.10
PBILDT	28.34	22.71
PAT	11.55	11.06
Overall gearing (times)	1.13	1.76
Interest coverage (times)	2.43	4.13

A: Audited, Prov.- Provisional

Inducto Steel Limited

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Prov.)
Total operating income	27.39	22.46
PBILDT	2.41	0.79
PAT	0.52	0.21
Overall gearing (times)	0.00	0.00
Interest coverage (times)	1.58	2.61

A: Audited, Prov.- Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	65.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	65.00	CARE BB; Stable / CARE A4	-	-	-	-

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