



Press Release

Rudra Green Ship Recycling Private Limited

May 19, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term/Short Term Bank Facilities	150.00 (including proposed limit of Rs.62.00 crore)	IVR BBB- [CE]; Stable Outlook/ IVR A3 [CE] (IVR Triple B Minus [Credit Enhancement] with Stable Outlook/ IVR A Three [Credit Enhancement])*	Downgraded
Total	150.00		

**CE rating based on corporate guarantee from Rudra Global Infra Products Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Rudra Green Ship Recycling Private Limited (RGSRPL) takes into account expected moderation in its performance in FY20 and increase in its working capital requirement leading to liquidity stretch coupled with deterioration in the credit profile of its corporate guarantor Rudra Global Infra Products Limited (RGIPL) during 9MFY20. However, the rating continues to derive comfort from its experienced promoters with long track record of operations and satisfactory gearing & debt protection metrics. Further, these rating strengths continue to remain tampered due to its exposure to foreign currency fluctuation risk. The rating also notes inherent cyclicality in the ship breaking industry along with regulatory risk and exposure to cyclicality of steel industry. The corporate guarantee results in credit enhancement in the rating of the said instrument to IVR BBB- (CE)/Stable Outlook (IVR Triple B Minus [Credit Enhancement] with Stable Outlook) against the unsupported rating of IVR BB+/Stable (IVR Double B plus with Stable Outlook).

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics



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- Improvement in working capital cycle with improvement in liquidity
- Improvement in the credit profile of the guarantor

Downward factors

- Deterioration in scale of operation and/or deterioration in profitability impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure
- Elongation in the operating cycle impacting the liquidity
- Moderation in credit profile of the guarantor

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with track record of operations

Rudra Green Ship Recycling Private Limited (RGSRPL) is engaged in ship breaking business since 1994 and has a strong presence in the ship breaking industry with experienced promoters. The operations of the company are looked after by Mr. Ashok Kumar Gupta and his son Mr. Nikhil Gupta. Mr. Ashok Kumar Gupta entered into ship breaking / recycling industry in 1994 which was booming at that time. He has been instrumental in setting up the business at Bhavnagar. The day to day affairs is managed by his son Mr. Nikhil Gupta who also has over a decade of experience in the industry.

Satisfactory gearing and debt protection metrics

The capital structure was comfortable with long term debt equity ratio of 0.05x and overall gearing of 0.85x as on March 31, 2019 as against a long term debt equity ratio and overall gearing ratio of 0.69x as on March 31, 2018. Interest coverage ratio was comfortable at 5.33x in FY19 (2.87x in FY18) and total debt to GCA was moderate at 4.19x in FY19 (3.72x in FY18). Debt protection parameters continued to remain comfortable with interest coverage ratio of 2.54x and total debt to GCA of 2.51x in FY20 (Est.). Overall gearing was also comfortable at 0.34x as on March 31, 2020 (Est.).

Conversion of plot into Green Recycling Yard

RGSRPL's plot has been converted into a Green Recycling (Guidelines for Safe and Environmentally Sound Ship Recycling) yard in May 2017 to be compliant with International



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Maritime Organisation's, Hong Kong Convention, which will enhance the ship procurement capabilities and result in lower procurement cost of ships thereby supporting the profit margins of the company.

Key Rating Weaknesses

Deterioration in financial performance in FY20 (Est.) in spite of improvement in revenues in FY19

Total operating income of RGSRL witnessed a y-o-y growth of 18.39% in FY19 over FY18 on account of increase in volume sales as well as sales realisation from ship breaking activity. Further, the company was engaged in trading sales to the extent of Rs.19.64 crore which further aided the growth in total operating income in FY19. In spite of increase in total operating income in FY19, there was a decline in absolute EBITDA as well as in the EBITDA margin. The EBITDA margin declined from 5.87% in FY18 to 4.35% in FY19 on account of increase in raw material cost without much increase in sales realisation. Also, there is comparatively less margins in trading sales. However, on account of decline in interest cost in FY19 as compared to FY18 on account of payment of unsecured loans, absolute PBT improved from Rs.4.33 crore in FY18 to Rs.4.84 crore in FY19. The PAT margin improved slightly from 2.10% in FY18 to 2.24% in FY19.

However, total operating income of the company is estimated to deteriorate in FY20 to Rs.127.60 crore on account of decline in sales volume as well as realisation due to slow down in the steel industry which is the end consumer for the company. Further, with increase in finance cost the profit margin is also expected to dampen in FY20. Consequently, the debt protection metrics are expected to deteriorate in FY20.

Deterioration in the financial performance of the guarantor, Rudra Global Infra Products Limited (RGIPL) during 9MFY20

RGIPL's total operating income witnessed a y-o-y growth of ~44% in FY19 driven by increase in volume sale as well as average sales realisation of billets and TMT bars. Despite increase in total operating income, the EBITDA margin of the company dampened from 7.65% in FY18 to 5.78% in FY19. However, the company has earned healthy gross cash accruals of Rs.20.74 crore in FY19 (Rs.17.46 crore in FY18). During 9MFY20, the company earned a total operating income of Rs.290.89 crore with a PAT of Rs.1.64 crore as against total operating income of Rs.447.03 crore and PAT of Rs.9.28 crore in 9MFY19. The



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moderation in its total operating income was due to subdued market demand in FY20 leading to decline in volume sales coupled with adverse movement in realisations. Further, there was a steady increase in interest cost during the aforesaid period owing to rise in its short-term borrowings which also affected the profitability. Infomerics expects moderation in RGIPL's total operating income and profit levels in FY20. With moderation in profit level, the debt protection metrics also witnessed impairment marked by deterioration in interest coverage from 4.70x in FY19 to 1.66x in 9MFY20.

Increased working capital requirements leading to liquidity stretch

High inventory levels with continuous ship procurement, coupled with elongated receivables cycle, has resulted in a high working capital intensity of operations. Debtor days and creditors days stood at 82 days and 128 days respectively in FY19 which further increased to 126 days and 305 days respectively in FY20 (Est.). The liquidity position of the company remained stretched as indicated by almost full utilisation of fund-based and non-fund-based bank limits. However, the same has consistently been supported by promoter's funding.

Exposed to Foreign currency fluctuation risk

Since the ships are procured from the international market in US Dollar terms against a letter of credit which has a fixed maturity, the company's profitability is exposed to fluctuations in foreign currency exchange rates. The unhedged amount of foreign currency exposure as on March 31, 2020 is Rs.111.27 crore.

Cyclicality inherent in the ship breaking industry along with regulatory risk and exposure to cyclicality of steel industry

Ship procurement depends on current trends in the ship breaking industry along with the international economic situation, which affects the company's revenue and thus profit margins. Further, the company is also exposed to regulatory risks, primarily due to environment and human right related issues. Further, RGSRL's fortunes depend on the steel industry and any slowdown in global economy may hamper the steel industry's growth. Hence the company's performance is susceptible to the cyclicality of the steel industry.

Analytical Approach: Standalone

Applicable Criteria:



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Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Parent & Group Support

Rating of Structure Debt Transactions (Non securitisation Transactions)

Liquidity - Stretched

The liquidity position of the company is stretched as indicated by almost full utilisation in its average fund based working capital during the past twelve months ended March 31, 2020. However, its expected sufficient cash accruals vis-a-vis its insignificant debt repayment obligation and continuous support from the promoters impart comfort.

About the Company

Rudra Green Ship Recycling Private Limited (RGSRPL), formerly known as Harikrishna Steel Corporation (HSC) is a private limited company converted from a partnership firm on June 12, 2018. Incorporated in 1994, RGSRPL is a part of the M.D. Group of Bhavnagar, Gujrat and is engaged in ship recycling activities. Currently, the company operates from the Alang Ship Breaking Yard in Bhavnagar, Gujrat. RGSRPL's operations are carried out at the premises leased out by the Gujarat Maritime Board in Bhavnagar.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	131.97	156.24
EBITDA	7.75	6.79
PAT	2.77	3.49
Total Debt	10.91	15.42
Tangible Net worth	15.85	18.08
EBITDA Margin (%)	5.87	4.35
PAT Margin (%)	2.10	2.24
Overall Gearing Ratio (x)	0.69	0.85

**As per Infomerics' Standard*



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Financials of the Corporate Guarantor Rudra Global Infra Products Limited

(Rs. Crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	386.60	557.25
EBITDA	29.57	32.20
PAT	11.28	15.75
Total Debt	52.08	73.71
Tangible Net worth	64.38	80.15
EBITDA Margin (%)	7.65	5.78
PAT Margin (%)	2.91	2.80
Overall Gearing Ratio (x)	0.81	0.74

*As per Infomerics' Standard

Status of non-cooperation with previous CRA:

CRISIL has moved the rating of RGSRPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups vide its Press Release dated January 23, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit/ Letter of credit	Long Term/ Short Term	150.00 (including proposed limit of Rs.62.00 crore)*	IVR BBB-[CE]; Stable Outlook/ IVR A3 [CE]	-	IVR BBB [CE]; Stable Outlook / IVR A3+ [CE] (March 05, 2019)	-

*Cash credit of Rs.20.00 crore (including proposed limit of Rs.8.00 crore) is a sub limit of the total bank facility

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term / Short Term Bank Facilities – Cash Credit / Letter of Credit	-	-	-	150.00 (including proposed limit of Rs.62.00 crore)	IVR BBB- [CE]; Stable Outlook / IVR A3 [CE]

*Cash credit of Rs.20.00 crore (including proposed limit of Rs.8.00 crore) is a sub limit of the total bank facility