

Press Release

Rudra Green Ship Recycling Private Limited

March 05, 2019

Rating

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 [SO]; Stable Outlook / IVR A3+ [SO] (IVR Triple B [Structured Obligation] with Stable Outlook / IVR A Three plus [Structured Obligation])	Assigned
Total	150.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating majorly derives comfort from the corporate guarantee provided by Rudra Global Infra Products Limited (rated IVR BBB / Stable on February 12, 2019), its experienced promoters, improvement in profitability in FY18 and satisfactory gearing and debt protection metrics. However, the rating is constrained by increased working capital requirements, exposure to foreign currency fluctuation risk and cyclical nature in the steel and ship breaking industry. Growth and profitability, improved capital structure and gearing level, working capital management and performance of the Guarantor the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with track record of operations

Harikrishna Steel Corporation (HSC), now known as Rudra Green Ship Recycling Private Limited (RGSRPL) with effect from June 12, 2018 entered into ship breaking business from 1994 and has a strong presence and long track record of operations 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.

Improvement in revenues with the revival of ship breaking industry in FY17 and FY18

Ship breaking industry witnessed a downturn in FY15 and FY16 owing to prevailing adverse pricing dynamics caused by rising ship procurement prices, falling steel prices and high forex fluctuations. Therefore, the firm had to concentrate more on its trading sales of scrap, yielding low margins till FY16. However, following the revival of the ship breaking industry with upward movement in steel prices, RGSRPL had reduced its trading sales to focus on its core operations which resulted in increase in income from ship breaking from Rs.54.50 crore in FY16 to Rs.125.13 crore in FY18. With reduction in trading activity, its profitability had reflected an increasing trend over the same period and EBITDA Margin increased from 5.25% in FY16 and 5.79% in FY17 to 6.36% in FY18. Similarly, PAT Margin also improved from 1.25% in FY16 and 1.13% in FY17 to 2.10% in FY18.

Satisfactory gearing and debt protection metrics

RGSRPL has a comfortable long term debt-equity ratio and overall gearing ratio of 0.69x as on March 31, 2018. The debt protection metrics for the company are comfortable in FY18 with the interest coverage ratio of 2.51x and Total Debt to Gross Cash Accruals of 3.72x.

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 Maritime Organization'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 firm.

Stable financial performance of the guarantor, Rudra Global Infra Products Limited

Rudra Global Infra Products Limited (RGIPL, rated IVR BBB / Stable on February 12, 2019), based in Bhavnagar, Gujarat is the flagship company of the MD Group. The company is engaged in the manufacturing of billets and TMT Bars and has its manufacturing facility at Bhavnagar with an installed capacity of 1,20,000 MT per annum. The company is listed on BSE Mainboard Platform on December 5, 2017. The company markets its products under the brand "Rudra TMX". The company has been able to build a strong brand presence in Gujarat through its network of around 350 dealers and distributors.

Total Operating Income of the company increased by 47.11% in FY18 over FY17. EBITDA margin also improved from 6.80% in FY17 to 7.04% in FY18 due to optimization of available resources and improvement in volume sales. PAT increased to Rs.11.09 crore in FY18 from Rs.5.74 crore in FY17 due to increase in both domestic as well as export sales.

Key Rating Weaknesses

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 86 days and 157 days respectively in FY18. The liquidity position of the firm remained moderate 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 firm's profitability is exposed to fluctuations in foreign currency exchange rates. The unhedged amount of foreign currency exposure as on December 31, 2018 is Rs.58.14 crore.

Cyclicality of steel industry

RGSRPL's fortunes depend on the steel industry and any slowdown in global economy may hamper the steel industry's growth. Hence the firm's performance is susceptible to the cyclicality of the steel industry.

Cyclicality inherent in the ship breaking industry and regulatory risk

Ship procurement depends on current trends in the ship breaking industry along with the international economic situation, which affects the firm's revenue and thus profit margins. Further, the firm is also exposed to regulatory risks, primarily due to environment and human right related issues.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Parent & Group Support

Liquidity

The firm is earning a modest level GCA and the same is expected to increase gradually with increase in scale of operation and level of margin. The company has very meagre loan repayment and only interest servicing which has 2.51x cover. The partners have financially supported the operation of the business through infusion of capital as and when required and the same is expected going forward. All these factors indicate a moderate degree of liquidity support to the firm in meeting its near-term debt obligations. Further, the guarantee from RGIPL provides additional comfort to the liquidity of the company.

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, HSC 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. Other entities of the Group include Rudra Global Infra Products Limited (RGIPL, engaged in manufacturing of billets and TMT bars), Chintamani Oxygen (engaged in manufacturing of oxygen and other industrial gases) and Sonthalia Steel Rolling Mills Private Limited (engaged in manufacturing of MS billets).

Financials (Standalone):

	(Rs. crore)	
For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	147.70	131.97
EBITDA	8.55	8.39
PAT	1.67	2.77
Total Debt	27.66	10.91
Tangible Net worth	9.07	15.85
EBITDA Margin (%)	5.79	6.36
PAT Margin (%)	1.13	2.10
Overall Gearing Ratio (x)	3.05	0.69

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term / Short Term Bank Facilities – Cash Credit / Letter of Credit	Long Term / Short Term	150.00 (including proposed limit of Rs.62.00 crore)*	IVR BBB [SO]; Stable Outlook / IVR A3+ [SO]	-	-	-

*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 [SO]; Stable Outlook / IVR A3+ [SO]

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