



## Press Release

### Rudra Green Ship Recycling Private Limited

January 04, 2022

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term/ Short Term Bank Facilities	150.00 (including proposed limit of Rs.62crore)	IVR BB+ [CE]; Positive Outlook / IVR A4+ [CE] (IVR Double B Plus [Credit Enhancement] with Positive Outlook/ IVR A4+ [Credit Enhancement] *)	Rating removed from 'Issuer Not Cooperating' category and revised from IVR BB [CE]/ IVR A4 [CE]
<b>Total</b>	<b>150.00</b>		

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

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

Earlier Infomerics had moved the ratings of Rudra Green Ship Recycling Private Limited (RGSRPL) into Issuer Not Cooperating category vide its press release dated May 06,2021 due to non-submission of information required for detailed review by the company. However, the management has subsequently started sharing the requisite information for carrying out a comprehensive review of the rating. Consequently, the ratings are being migrated to 'IVR BB+ [CE]; Positive Outlook / IVR A4+ [CE] (IVR Double B Plus [Credit Enhancement] with Positive Outlook/ IVR A4+ [Credit Enhancement] against the unsupported rating of IVR BB; Stable (IVR Double B with Stable Outlook).

The ratings assigned to the bank facilities of Rudra Green Ship Recycling Private Limited derive comfort from its experienced promoters and long track record of operations. The ratings also factor in the company's stable operating performance though it witnessed moderation in scale of operation in FY21 and the benefits from conversion of plot into Green Recycling Yard. These rating strengths are however partially offset by its weak financial risk profile, exposure to cyclical nature inherent in the ship breaking industry and the steel industry, exposure towards group companies, exposure to regulatory and environment hazard risk and exposure to foreign currency fluctuation risk. The rating



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also notes deterioration in performance of the guarantor, RGIPL in FY21; though expected to improve in FY22.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Sustained growth in operating income along with improvement in profitability
- Improvement in capital structure and debt protection metrics with improvement in interest coverage to over 2.00x
- Improvement in credit profile of the corporate guarantor

#### **Downward Factors**

- Moderation in operating income and/or deterioration in operating profitability impacting the debt protection metrics
- Deterioration in capital structure
- Elongation of the working capital cycle affecting liquidity
- Moderation in credit profile of the corporate guarantor

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters and long track record of operations**

Rudra Green Ship Recycling Private Limited (erstwhile Harikrishna Steel Corporation (HSC)) has been engaged in the ship breaking business since 1994 and has a long track record of operations in the ship breaking industry. The company is promoted by Mr. Ashok Kumar Gupta who has more than 30 years of experience in the Steel sector and entered into ship breaking in 1994. The day-to-day affairs of the company are looked over by his son Mr. Sahil Gupta along with a team of experienced professionals.

##### **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 Organisation's, Hong Kong Convention, which will enhance the ship procurement capabilities and ensure that the ship breaking procedure does not pose any unnecessary risk to human health, safety and environment.



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### **Stable operating performance though witnessed moderation in scale of operation in FY21**

The total operating income of RGSRPL registered a marginal decline from Rs.128.59 crore in FY19 to Rs.126.80crore in FY20 due to impact of Covid-19 in Q4 FY20. In FY21, the operating income declined further to Rs.112.13 crore owing to the Covid-19 led nationwide lockdown because of which the operations were shut for around two months. Also, there was shortage of manpower in the first six months of the fiscal followed by shortage of oxygen in Sep-Oct 2020. However, despite moderation in performance the profitability remained thin in FY20 and FY21. In H1FY22, RGSRPL has achieved a revenue of ~Rs.69 crore.

### **Key Rating Weaknesses**

#### **Weak financial risk profile**

RGSRPL had a moderate Book net worth of Rs.20.29crore as on March 31, 2021, However, the company extended loans and advances to the tune of Rs.36.69crore to its related parties, which resulted in negative Adjusted Tangible Net worth (ATNW). Consequently, the overall gearing ratio and TOL/ANW for the Company remained negative as on March 31, 2021. Also, the Company had weak debt protection metrics as reflected in interest coverage of 0.35x and Total Debt/GCA of 8.60x in FY21.

### **Deterioration in performance of the guarantor, RGIPL; however expected to improve in FY22**

RGIPL registered a sustained decline in operating income in the three years through FY21 to Rs.237.81crore (FY20: 361.01 crore; FY19: Rs.557.25crore). In FY20, the operating income witnessed moderation on the back of lower volume sales due to subdued market demand coupled with adverse movement in realisations. In FY21, the operating income deteriorated further due to further decline in sales volume of TMT bars and Billets as the manufacturing facilities remained shut from March 23, 2020 to June, 2020 because of Covid-19 led nationwide lockdown and thereafter operations resumed from July 2020 in a staggered manner. Fuelled by the decline in operating income amidst continued burden of overhead costs such as power & fuel, employee expenses and increased finance costs, the Company reported net as well as cash loss in FY21. With negative operating profitability, the debt



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protection metrics also witnessed impairment marked by negative interest coverage in FY21. However, the company has seen turnaround in H1FY22 backed by uptrend in steel prices after H1FY21. During H1FY22, the company has earned a PAT of Rs.4 crore on a revenue of Rs.149.71 crore.

### **Exposure to group companies**

As on March 31, 2021, RGSRL had extended loans and advances to the tune of Rs.36.69 crore to related parties, of which ~Rs.35 crore was given to RGIPL.

### **Exposure to cyclicity inherent in the ship breaking industry and the steel industry**

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 for 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. Further, RGSRL's fortunes depend on the steel industry and therefore it is vulnerable to the cyclicity associated with the steel industry.

### **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, acids, hazardous paints, etc.

### **Exposure to Foreign currency fluctuation risk**

The firm uses Letter of Credit (LC) to purchase old ships. Since the transactions are denominated in foreign currency, the firm is exposed to forex risk, as the firm's revenue is denominated in Indian Rupee (INR). However, the firm hedges its forex risk



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by taking forward cover, which mitigates its risk to forex fluctuations to an extent. As on Sep 30, 2021, RGSRPL had unhedged forex exposure of Rs.67.98crore.

**Analytical Approach: Credit Enhancement (CE) rating:** Assessment of the credit profile of Rudra Global Infra Products Limited (RGIPL; rated IVR BB+/Positive), provider of corporate guarantee for the bank facilities of Rudra Green Ship Recycling Private Limited.

**Unsupported Rating:** Standalone

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Rating Methodology for Structure Debt Transactions (Non-Securitisation transaction)

### **Liquidity – Adequate**

RGSRPL has adequate liquidity as reflected in comfortable expected accruals over the medium term as against minimal repayment obligations on loans. The Company's fund based working capital limits had a low utilization of 47.8% in the twelve months ended Oct 2021 while the non-fund-based limits were moderately utilized at ~84% over the same period.

### **About the Company**

Rudra Green Ship Recycling Private Limited (RGSRPL), formerly known as Harikrishna Steel Corporation (HSC) was established in 1994 as a partnership firm. In June 2018, the firm was converted into a private limited company with the current name. RGSRPL is a part of the M.D. Group of Bhavnagar, Gujrat and is engaged in ship recycling activities. 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):**

For the year ended / As on*	(Rs. crore)	
	31-3-2020 Audited	31-3-2021 Prov.
Total Operating Income	126.80	112.13
EBITDA	4.07	1.30



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PAT	1.13	1.09
Total Debt	12.62	10.88
Book Tangible Net worth	19.21	20.29
EBITDA Margin (%)	3.21	1.16
PAT Margin (%)	0.88	0.93
Overall gearing	0.19	-0.66

\*Classification as per Infomerics Standards

### Financials of the Corporate Guarantor Rudra Global Infra Products Limited:

For the year ended / As on*	(Rs. crore)	
	31-3-2020	31-3-2021
	Audited	Audited
Total Operating Income	361.01	237.81
EBITDA	21.52	-6.84
PAT	0.24	-30.40
Total Debt	103.43	161.25
Tangible Net worth	100.39	70.02
EBITDA Margin (%)	5.96	-2.88
PAT Margin (%)	0.07	-12.64
Overall gearing	1.10	1.07

\*Classification as per Infomerics Standards

**Status of non-cooperation with previous CRA:** CRISIL has maintained the company in “Issuer not Cooperating” category due to non-availability of information via PR dated April 21, 2021.

**Any other information:** NA

### Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash credit/ Letter of credit	Long term / Short Term	150.00 (including proposed limit of Rs.62.00 crore)	IVR BB+ [CE]; Positive Outlook / IVR A4+ [CE] (IVR Double B Plus [Credit Enhancement] with Positive	IVR BB [CE]; Issuer Not Cooperating/ IVR A4 [CE]; Issuer Not	IVR BBB- [CE]; Stable Outlook/ IVR A3 [CE] (May 19,	--	IVR BBB [CE]; Stable Outlook/ IVR A3+ [CE] (March





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				Outlook/ IVR A4+ [Credit Enhancement])	Cooperating (May 6, 2021)	2020)		05, 2019))
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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
Cash Credit / Letter of Credit	-	-	-	150.00 (including proposed limit of	IVR BB+ [CE]; Positive Outlook / IVR A4+ [CE]



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				Rs.62.00 crore)*	
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\* Cash credit of Rs.20.00 crore (including proposed limit of Rs.8.00 crore) is a sub limit of the total bank facility

**Annexure 2: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Rudra-GreenShip-lenders-jan22.pdf>

**Annexure 3: List of companies considered for consolidated analysis: Not Applicable**

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit / Letter of Credit	Complex

**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](http://www.infomerics.com).