Press Release

Rajeev Shantisarup Reniwal

January 30, 2021

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long-term/ Short-term Bank Facilities	30.00	IVR BB; Stable/IVR A4 (IVR Double B with Stable outlook/IVR A Four)	Reclassified and Reaffirmed
	Total	**30.00 (Rs Thirty crore Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Rajeev Shantisarup Reniwal (RSSR) continues to derive comfort from the strong experience of its proprietor, tax benefits due to time of levy of GST, increase in scale of operations in FY20 coupled with improvement in leverage ratios and debt coverage indicators. These rating strengths are, however, remain constrained by its small scale of operations with thin profitability, cyclicality risks coupled with competition from global peers, vulnerability to margins due to exposure in volatile steel/scrap prices, susceptibility to fluctuations in foreign exchange rates and inherent risks associated with the constitution.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/TNW to remain below 1.5x on a sustained basis

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 1.5x
- Deterioration in working capital management affecting the liquidity.

Detailed Description of Key Rating Drivers

Strong experience of proprietor

M/s Rajeev Shantisarup Reniwal is as a proprietorship concern found in 2016 by Mr Rajeev Reniwal. The proprietor has been associated with ship breaking business and has got extensive experience of about three decades. The experience and expertise of Mr. Reniwal has helped in the steady growth of the business over the years. This apart, there are other four sister concerns of RSSR under able leadership of Mr. Reniwal. The sister concerns are also into ship breaking and steel trading which provides synergy benefits to the firm.

Increase in scale of operations in FY20

RSSR is engaged in and trading of iron and steel since its commencement. From 2019 onwards it has changed its business from being confined only to normal trading of scrap materials to high seas sales of ships. As it is involved in buying ships and correspondingly selling the same to ship breakers, its revenue jumped up to Rs.9.65 crore in FY 19 and further jumped to Rs.29.22 crore during FY20.

Improvement in leverage ratios and debt coverage indicators

The debt coverage indicators marked by interest coverage ratio remained comfortable at 2.27x in FY20. Total Debt to GCA ratio was also remained moderate at 1.50x as on March 31, 2020. With a higher tangible net worth of Rs.16.47 crore and lesser dependence on LC backed credit purchase in FY20, the TOL/TNW has improved to 0.21x as on March 31, 2020.

Tax benefits due to time of levy of GST

For high seas sales GST on sales transactions of imported goods, whether one or multiple, will be levied and collected only at the time of import. i.e when the import declarations are filed before the customs authorities for the customs clearance purposes for the first time. Further any value addition accruing in each such high sea sales will form part of the value on which GST is collected at the time of clearance. Thus the final buyer would be responsible for payment on GST on the full value of goods plus any value addition at the time of import.

Key Rating Weaknesses

Small scale of operations with thin profitability

The scale of operation of the entity continued to remain small despite sharp improvement in its topline from ~Rs.9 crore in FY19 to ~Rs.29 crore in FY20. Small scale of operation restricts the financial flexibility to an extent. Despite growth in operations in FY20, the profitability of the company continued to remain thin.

Cyclicality risks 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 neighbouring countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and partial enforcement.

Vulnerability to margins due to exposure in volatile steel/scrap prices

Profitability of steel traders is susceptible to steel scrap prices which are linked to global steel prices. The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes the entity to any adverse price movement on the unsold inventory of steel scrap held by the group.

Susceptibility to fluctuations in foreign exchange rates

The entity also faces forex risk, as payment to be made to the ship supplier in foreign currency. The entity purchases ship in foreign currency under an LC arrangement, where the usance period is usually around 180 days. Since ship breaking entities usually have a long payment period on LC-backed purchases, any depreciation of the Rupee increases the amount payable to honour the same LC. While the entity hedges such risks by booking forward contracts, it remains exposed to adverse movements in exchange rates.

Inherent risks associated with the constitution

The constitution of entity is a proprietorship concern. Hence it is exposed to the risk of proprietor withdrawing funds from the business. Any withdrawal of capital from the firm by the proprietor can lead to liquidity crisis during exigencies.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the entity is expected to remain adequate in the near term marked by its nil repayment obligations with respect to moderate gross cash accrual and no utilisation of bank borrowing. RSSR has earned a gross cash accrual of Rs.0.45 crore in FY19 and Rs.0.43 crore in FY20 and the entity is expected to earn gross cash accruals in the range of ~Rs.1-2 crore as against its nil debt repayment obligation during FY21-23.

About the Firm

M/s Rajeev Shantisarup Reniwal (RSSR) is a proprietorship concern founded by Mr Rajeev Reniwal during 2016. The firm primarily deals into Iron and Steel trading activities. The entity during the past couple of years has been involved in buying ships and correspondingly selling the same to ship breakers on high seas basis for ship breaking/dismantling. Besides it is also involved in trading of Iron and Steel locally and imports based on better price opportunity. Mr. Reniwal has been active in the business since 1992 and having experience of about three decades. He looks after the day-to-day activities of the firm. This apart, there are other four sister concern of RSSR under able leadership of Mr. Reniwal. The sister concerns are also into ship breaking and steel trading.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	9.94	29.22
EBITDA	0.75	0.76
PAT	0.45	0.40
Total Debt	0.01	0.64
Tangible Net worth	15.94	16.47

EBITDA Margin (%)	7.59	2.60
PAT Margin (%)	4.58	1.38
Overall Gearing Ratio (x)	0.00	0.04

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

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.	Fund Based / Non-Fund Based	Long Term/ Short Term	30.00	IVR BB/ Stable/ IVR A4	IVR BB (Nov 13, 2019)	-	-

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:

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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- Fund Based/Non-Fund based Limits	-	-	-	30.00	IVR BB/Stable/ IVR A4