

Leela Ship Recycling Private Limited

February 26, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	25.00	25.00	[ICRA]BB (Stable); Reaffirmed, removed from Issuer Not Cooperating category
Letter of Credit	125.00	125.00	[ICRA]A4; Reaffirmed, removed from Issuer Not Cooperating category
Total	150.00	150.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 25.00-crore¹ fund-based bank facilities of Leela Ship Recycling Private Limited (LSRPL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 125.00-crore non-fund based facility of LSRPL. The outlook on the long-term rating is Stable. Also, the ratings were removed from the 'Issuer not cooperating' category.

Rationale

The ratings reaffirmation continues to reflect the extensive experience of its promoters and the strong presence of the Leela Group in the ship breaking industry. ICRA also takes into account the company's association with Global Marketing Systems, a leading ship trader for recycling, which provides benefits in terms of easy procurement of ships at reasonable prices.

The ratings, however, continue to remain constrained by the company's moderate financial risk profile marked by thin margins, leveraged capital structure, moderate debt-coverage indicators and high working capital requirements of the business. The ratings also factor in the vulnerability of LSRPL's profitability to any fluctuations in steel scrap prices and foreign currency exchange rates and the exposure of its revenues to the cyclicity inherent in the ship breaking industry. ICRA also notes that the company is exposed to intense competition from a large number of players operating in Alang and its surroundings along with pressure exerted by international competitors as well as to the regulatory risks primarily due to environmental and human rights-related issues.

Outlook: Stable

ICRA believes that LSRPL will continue to benefit from the extensive experience of its promoters and the established presence of the Leela Group in the ship breaking business. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if non-availability of adequate fund-based limits restricts the revenue growth, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of promoters and established presence of the Group in the ship recycling industry - LSRPL was promoted by Mr. Komalkant Sharma and is a part of the Leela Group, which has strong presence in the ship breaking industry with its experienced promoters. Also, the Group has diversified presence across industries like ship recycling, real estate, logistics, hotels and resorts, media and entertainment.

Association with Global Marketing Systems, leading ship trader for recycling - The Leela Group is associated with Global Marketing Systems, a leading ship trader for recycling, which provides benefits in terms of easy procurement of ships at reasonable prices.

Credit challenges

Moderate financial risk profile - The profit margin of the company remained on the lower side with an operating margin of 5.47% and a net margin of 0.69% in FY2017. High debt level and relatively lower net worth base has resulted in a leveraged capital structure with a gearing of 2.19 times as on March 31, 2017. The debt coverage indicators stood moderate with an interest coverage of 1.28 times, total debt/OPBDITA of 4.95 times and TOL/TNW of 4.96 times.

High working capital intensity - High inventory levels with continuous ship procurement has resulted in a high working capital intensity of operations as reflected in its NWC/OI of 32%.

Vulnerability of profitability to any fluctuations in foreign currency exchange rate and steel prices - Since the ships are procured from the international market in terms of dollar against a letter of credit, which has a fixed maturity of ~270-360 days, the company's profitability is exposed to any fluctuations in foreign currency exchange rates. The profitability also remains vulnerable to any fluctuation in steel or scrap prices given the time lag between ship procurement and the sales of scrap. The revenues and profitability are also exposed to the intense competition in the ship breaking industry.

Revenues and profitability exposed to cyclicity inherent in the ship breaking industry and regulatory issues - The ship procurement depends on the current trends in the ship breaking industry and the international economic situation, which affects its revenues and thus the profit margins. Further, the company is also exposed to regulatory risks primarily due to environment and human right-related issues.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Leela Ship Recycling Private Limited was incorporated in 2003 to carry out ship recycling activities. The company at present operates from the Alang Ship breaking Yard, Bhavnagar. LSRPL is a part of the Leela Group, which has diversified operations across industries like ship trading, ship recycling, construction and infrastructure, real estate developments, surface transportation, print and electronic media, travel solutions etc. in the brand name of "Leela Worldwide" through a number of Group companies.

In FY2017, the company reported a net profit of Rs. 0.95 crore on an operating income (OI) of Rs. 138.80 crore, as compared to a net profit of Rs. 0.71 crore on an OI of Rs. 109.54 crore in the previous year.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	109.54	138.80
PAT (Rs. crore)	0.71	0.95
OPBDIT/ OI (%)	5.67%	5.47%
RoCE (%)	10.36%	13.56%
Total Debt/ TNW (times)	2.32	2.19
Total Debt/ OPBDIT (times)	6.03	4.95
Interest Coverage (times)	1.77	1.28
NWC/ OI (%)	34%	32%

Source: LSRPL financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 June 2015
1 Cash Credit	Long Term	25.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)*	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Letter of Credit	Short Term	125.00	-	[ICRA]A4	[ICRA]A4*	[ICRA]A4	[ICRA]A4

*Issuer not cooperating

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	125.00	[ICRA]A4

Source: Leela Ship Recycling Private Limited

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