Paras Steel Corporation

July 10, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit*	(5.00)	[ICRA]BB+ (Stable); assigned
Letter of Credit	30.00	[ICRA]A4+; assigned
Total	**30.00**	

**Sub-limit of letter of credit*

Rating action

ICRA has assigned the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 5.00-crore[1] fund-based limits (sub-limit of letter of credit) of Paras Steel Corporation (PSC or the firm)[2]. ICRA has also assigned the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 30.00-crore non-fund based limits of PSC. The outlook on the long-term rating is Stable.

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of PSC and its two group companies, Dalkan Ship Breaking Ltd. and Vijaykumar And Co. (the 'Group').

The assigned ratings positively factor in the extensive experience of the promoters, the strong presence of the Bhupatrai Chimanlal Group in the ship breaking and metal industries and conversion to Hong Kong Convention compliant facility. ICRA also positively factors in the infusion of capital by the promoters in Paras Steel Corporation and Vijaykumar And Co. to the tune of Rs. 63.87 crore in FY2018, which is expected to remain in the business. The same has led to considerable improvement in capital structure in FY2018.

The ratings, however, are constrained by the Group's moderate financial risk profile as marked by low profit margin, and below-average debt protection metrics. The ratings are also constrained by the high working capital intensity of operations, emanating from the high inventory holdings and elongated receivables cycle. Nevertheless, the working capital cycle has improved during FY2018 by better receivable management. The ratings further factor in the vulnerability of the Group's profitability to any fluctuations in steel scrap prices and foreign currency exchange rates along with the exposure of its revenues to the cyclicality inherent in the ship breaking industry. ICRA notes that the Group is exposed to intense competition from a large number of players operating in Alang and its surrounding regions in Gujarat, along with pressure exerted by international competitors. The Group is vulnerable to regulatory risks as well, primarily due to environmental and human rights-related issues.

Outlook: Stable

ICRA believes that the Group will continue to benefit from the extensive experience of its promoters and its established presence 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

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[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*

to Negative if significant capital withdrawals, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters and their funding support, and established presence of the Group in the ship recycling and metal industries – The Bhupatrai Chimanlal Group started ship breaking from 1985. It enjoys a strong presence and long track record in the ship breaking industry with its experienced promoters. In addition, the Group has diversified presence across industries such as ship recycling, shipbuilding, steel, textiles, mining and solar, among others. The promoters have also infused capital to the tune of Rs. 63.87 crore in FY2018, which is expected to remain in the business. The same has led to considerable improvement in capital structure in FY2018.

Recovery in revenues with the revival of ship breaking industry in FY2017 and FY2018 – The Group witnessed significant decline in revenues from Rs. 167.80 crore in FY2015 to Rs. 51.96 crore in FY2016 due to downturn in the ship breaking industry owing to the prevailing adverse pricing dynamics caused by rising ship procurement prices, falling steel prices and high forex fluctuations. However, the same improved at a considerable rate to Rs. 127.23 crore in FY2017 and further to Rs. 157.09 crore in FY2018, following the revival of the ship breaking industry with upward movement in steel prices.

Conversion of plot into green recycling yard – Vijaykumar And Co.'s plot has been converted into green recycling yard in FY2018 to be compliant with International Maritime Organisation's Hong Kong Convention and Paras Steel Corporation's plot is in the process of conversion, which will enhance the ship procurement capabilities and will support the profit margins of the Group.

Credit challenges

Moderate financial risk profile - At a consolidated level, the operating profit margin of the Group remained highly volatile, declining to 5.75% in FY2017 from 11.93% in FY2016. The net margin of the Group remained largely stable over the years, however, the same remained low at 0.62% in FY2017. Although, in absolute terms OPBDITA and PAT have improved by 18% and 64% respectively in FY2017 on YoY basis because of increase in scale. High debt level and relatively lower net-worth base resulted in a highly leveraged capital structure with a gearing of 5.46 times, Total Debt/ OPBDITA of 8.21 times and TOL/ TNW of 10.68 times as on March 31, 2017. Although, there has been considerable improvement in the capital structure in FY2018, supported by the infusion of capital by promoters, with estimated gearing of 0.35 times and TOL/TNW of 1.76 times as on March 31, 2018. The debt coverage indicators stood below-average with interest coverage ratio of 1.14 times and 1.26 times and Total Debt/OPDITA at 8.21 times and 4.38 times % in FY2017 and FY2018 respectively.

High working capital intensity and moderate liquidity - High inventory levels with continuous ship procurement, coupled with elongated receivables cycle, has resulted in a high working capital intensity of operations as reflected by NWC/OI of 47% in FY2017. Nevertheless, the working capital cycle has improved during FY2018 by better receivable management. The liquidity position of the Group 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 promoters' funding.

Vulnerability of profitability to any fluctuations in foreign currency exchange rate and steel prices - Since the ships are procured from the international market in US Dollar terms against a letter of credit, which has a fixed maturity of ~180 days, the Group's profitability is exposed to 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 sale of scrap. The revenues and profitability are also exposed to the intense competition in the ship breaking industry.

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

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of PSC and its two Group companies, Dalkan Ship Breaking Ltd. and Vijaykumar And Co. ICRA has also applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

PSC was established in 1998 as a proprietorship concern of Mr. Jaysukhlal Shah to carry out ship recycling activities. Currently, the firm operates from the Alang Ship Breaking Yard in Bhavnagar, Gujarat. PSC is part of the Bhupatrai Chimanlal Group, which started its business in 1970 with its flagship company, Mono Plast, and began ship breaking activities from 1985. At present, the Group enjoys a diversified presence across various industries like ship recycling, shipbuilding, steel, textiles, mining and solar, among others. The Group companies include Dalkan Ship Breaking Ltd. (engaged in ship breaking), Vijaykumar And Co. (engaged in ship breaking), Mono Steel India Limited (engaged in manufacturing sponge iron, MS billets and TMT bars), and Jay Bharat Steel Corporation (engaged in manufacturing MS billets), etc.

In FY2017, the Group reported a net profit of Rs. 0.78 crore on an operating income (OI) of Rs. 127.23 crore, as compared to a net profit of Rs. 0.48 crore on an OI of Rs. 51.96 crore in the previous year. Further, as per provisional financials, the Group reported profit before depreciation and tax of Rs. 1.28 crore on an operating income of Rs. 157.09 crore in FY2018.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	51.96	127.23
PAT (Rs. crore)	0.48	0.78
OPBDIT/ OI (%)	11.93%	5.75%
RoCE (%)	11.32%	10.96%
Total Debt/ TNW (times)	5.06	5.46
Total Debt/ OPBDIT (times)	8.42	8.21
Interest Coverage (times)	1.11	1.14
NWC/ OI (%)	91%	47%

Source: Group companies' financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					July 2018	-	-	-
1	Cash Credit*	Long Term	(5.00)	-	[ICRA]BB+ (Stable)	-	-	-
2	Letter of Credit	Short Term	30.00	-	[ICRA]A4+	-	-	-

**Sub-limit of letter of credit*

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	(5.00)	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	30.00	[ICRA]A4+

**Sub-limit of letter of credit*

Source: Paras Steel Corporation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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