

March 13, 2020

Vijaykumar And Co.: Ratings upgraded to [ICRA]BB(Stable)/[ICRA]A4+; Removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit [^]	(5.00)	(5.00)	[ICRA]BB (Stable); Upgraded from [ICRA]B+ (Stable) and removed from Issuer Not Cooperating category
Letter of Credit	30.00	30.00	[ICRA]A4+; Upgraded from [ICRA]A4 and removed from Issuer Not Cooperating category
Total	30.00	30.00	

*Instrument details are provided in Annexure-1 and pertain to Vijaykumar And Co.; [^]Sub-limit of letter of credit

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the financials of Vijaykumar And Co. (VAC), Dalkan Ship Breaking Ltd. (DSBL) and Paras Steel Corporation (PSC) (referred to as the 'Group') due to their having common promoters and also because of the financial fungibility among the companies. The upgrade in the ratings takes into account the receipt of adequate information from these companies, enabling ICRA to assess their credit risk profiles. The assigned ratings positively factor in the extensive experience of the promoters along with their funding support to the Group, the strong presence of the Bhupatrai Chimanlal Group in the ship breaking and metal industries, and the conversion of the Group's facilities to safe and environment-friendly ones in accordance with the Hong Kong Convention.

The ratings, however, are constrained by the Group's below-average financial risk profile as marked by a low profit margin, a leveraged capital structure and the below-average debt protection metrics. Moreover, the management indicated about a large capital infusion in Paras Steel Corporation (PSC) and Vijaykumar and Co. (VAC) during the last rating exercise but it did not materialise, leading to the deterioration in capital structure and coverage indicators compared to ICRA's estimates. Another factor dampening the ratings is the high working capital intensity of operations as a result of the high inventory holdings. The ratings further factor in the vulnerability of the Group's profitability to any fluctuations in steel scrap prices and in foreign currency exchange rates along with the exposure of its revenues to the cyclicity inherent in the ship-breaking industry. ICRA notes that the Group is exposed to an intense competition from a large number of players operating in Alang and its surrounding regions in Gujarat, along with the pressure exerted by international competitors.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters and their funding support, and its long track record of operations in the ship-breaking industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and their funding support; established industry presence of the Group – The Bhupatrai Chimanlal Group started ship breaking from 1985 and enjoys an influential presence and has a long track record in the ship-breaking industry. In addition, the Group has a diversified presence across industries such as steel, ship recycling, shipbuilding, textiles, mining and solar, among others. The promoters and other Group companies have also marked their fixed deposits against the bank facilities of the Group, to support the business.

Conversion of plots into green recycling yards – The facilities of all the three companies of the Group i.e., DSBL, PSC and VAC, have been converted into safe and environment-friendly ones in accordance with the International Maritime Organisation’s Hong Kong Convention, which will support the ship procurement capabilities and the profit margins of the Group. The conversion is in accordance with the Recycling of Ships Bill, 2019, passed recently (December 2019) in India.

Credit challenges

Below-average financial risk profile – The Group’s financial risk profile is below-average, marked by leveraged capital structure with a gearing of 4.97 times as on March 31, 2019. Also, the debt coverage indicators are modest with an interest coverage of 1.16 times, a TD/OPBDITA of 11.09 times, a DSCR of 1.27 times and an NCA/Debt of 2% in FY2019. However, ~70% of the Group’s debt (Rs. 42.99 crore) as on March 31, 2019, comprised overdraft facility against the FDs of promoters/family members along with unsecured loans of Rs. 5.01 crore from promoters/related parties, signifying adequate funding support for the Group.

High working capital intensity – High inventory levels with continuous ship procurement, coupled with high receivables, resulted in a high working capital intensity of operations as reflected by an NWC/OI of 34% in FY2019.

Vulnerability of profitability to 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 cyclicity inherent in industry and regulatory issues – Ship procurement depends on current trends in the ship-breaking industry along with that in the international economic situation, which affect the Group’s revenues and thus its profit margins. Further, the Group is also exposed to regulatory risks, primarily due to environment and human rights-related issues.

Liquidity position: Stretched

The Group’s liquidity position remains **stretched** with scheduled LC repayments expected to tightly match the cash flow generation from the business and high average working capital limits utilisation (~80% from August 2018 to October 2019). Notwithstanding this, the Group’s liquidity profile derives comfort from the regular funding support from the promoter group (promoters/family members). As on March 31, 2019, most of the Group’s debt (~70%) comprised the overdraft facility against the FDs of promoters/family members along with the unsecured loans of Rs. 5.01 crore from promoters/related parties.

Rating sensitivities

Positive triggers - Given the below average financial risk profile and weak earnings outlook, the ratings are unlikely to be upgraded in the near term. However, any sizeable capital infusion, which leads to an improvement in the capital structure and liquidity position on a sustained basis might carry weight for a rating upgrade. Further, any significant scale up of operations coupled with sustenance of higher margins can be a positive rating trigger.

Negative triggers - As the ratings are supported by regular promoter/the Group’s funding support, inadequate or delayed funding support from the same will remain a key negative trigger. ICRA may also downgrade the ratings, if significant capital withdrawals or a stretch in working capital cycle leads to deterioration in key credit metrics and liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Dalkan Ship Breaking Ltd., Paras Steel Corporation and Vijaykumar And Co. (as mentioned in Annexure-2) given the close financial and managerial links between them.

About the company

VAC was established in 1994 as a proprietorship concern to carry out ship recycling activities, which was subsequently converted into a partnership firm in the current fiscal. Currently, the firm operates from the Alang Ship Breaking Yard in Bhavnagar, Gujarat. VAC 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 Paras Steel Corporation (engaged in ship breaking), Dalkan Ship Breaking Ltd. (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.

Key financial indicators (Standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	36.00	29.64
PAT (Rs. crore)	0.40	0.33
OPBDIT/OI (%)	10.34%	8.26%
RoCE (%)	8.72%	6.41%
Total Outside Liabilities/Tangible Net Worth (times)	36.94	29.22
Total Debt/OPBDIT (times)	8.95	16.08
Interest Coverage (times)	1.13	1.17
DSCR	1.13	1.17

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	152.38	140.34
PAT (Rs. crore)	1.34	1.16
OPBDIT/OI (%)	3.81%	3.95%
RoCE (%)	10.94%	10.64%
Total Outside Liabilities/Tangible Net Worth (times)	12.01	9.22
Total Debt/OPBDIT (times)	4.84	11.09
Interest Coverage (times)	1.29	1.16
DSCR	1.33	1.27

Status of non-cooperation with previous CRA: CRISIL B+/Stable/A4 (ISSUER NOT COOPERATING) as on Sep 05, 2019; Revised from CRISIL BB-/Stable/A4+ ISSUER NOT COOPERATING

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	Rating	FY2019	FY2018	FY2017
					13-Mar-2020	25-Oct-2019	10-Jul-2018	NA	NA
1	Cash Credit	Long Term	(5.00)	-	[ICRA]BB (Stable)	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	NA	NA
2	Letter of Credit	Short Term	30.00	24.10*	[ICRA]A4+	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4+	NA	NA

Amount in Rs. crore; * as on October 31, 2019

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	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	Bank Guarantee	NA	NA	NA	30.00	[ICRA]A4+

Source: VAC

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dalkan Ship Breaking Ltd.	-	Full Consolidation
Paras Steel Corporation	-	Full Consolidation

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