INDUCTO
STEEL LTD

June 28, 2018

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400 001

Sub: Intimation of credit rating
Ref: Regulation 30 *(read with Schedule III- Part A)* **and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015** *("SEBI Listing Regulations")*
[Scrip Code: BSE-532001]

Dear Sir/Madam,
Pursuant to above referred regulation, we inform you that Care Ratings Limited has assigned its ratings as under:

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term/ Short-term Bank Facilities	65.00	CARE BB; Stable/ CARE A4 [Double B; Outlook: Stable/A Four]	Assigned
Total	**65.00 (Rupees Sixty Five Crore only)**		

The credit rating letter ("said letter") is enclosed herewith for your reference.
Further, it is to bring to your notice that the said intimation was not made within the stipulated time owing to my non-availability due to an urgent, sudden and unexpected outstation meeting having remote access to e-mails. I resumed office today and the said letter was brought to my notice, thus, the disclosure has been made as soon as reasonably possible.
We request you to kindly take the same on your record.
Thanking you.
Yours faithfully,
For **INDUCTO STEELS LIMITED**

A. H. Doshi

INDUCTO STEEL LIMITED

Arpita Doshi
Company Secretary
Encl: a/a

CARE Ratings
Professional Risk Opinion

No. CARE/ARO/RR/2018-19/1191

Mr. Rajeev Reniwal
Managing Director
Inducto Steel Limited
156 Makers Chambers VI,
220 Jamnalal Bajaj Marg,
Nariman Point,
Mumbai, Maharashtra-400021

June 26, 2018

Dear Sir,

Credit rating for the Bank Facilities

Please refer to our letter dated June 21, 2018, on the above subject.

2. The rationale for the rating(s) is attached as an **Annexure - I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. We request for your immediate response since we have to publish the same shortly.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

[Akhil Goyal]
Senior Manager

Encl. a/a:

CORPORATE OFFICE: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22-6754 3456 • Fax: +91-22-6754 3457
Email: care@careratings.com • www.careratings.com

32, Titanium, Prahaladnagar Corporate Road
Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax.: +91-79-4026 5657
CIN-L67190MH1993PLC071691

Annexure I

Rating Rationale

Inducto Steel Limited

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	65.00	CARE BB; Stable/CARE A4 [Double B; Outlook: Stable/A Four]	Assigned
Total	**65.00 (Rupees Sixty Five crore only)**		

Rating Rationale

For, arriving at the ratings of Inducto Steel Limited (ISL), CARE has considered combined financial and business profile of four companies namely ISL, Hariyana Ship Breakers Limited (HSBL), Hariyana Ship Demolition Private Limited (HSDPL) and Hariyana International Private Limited (HIPL) henceforth referred as Hariyana group (HAG), as they have common promoters and management i.e. Reniwal family. Further, these companies are in similar line of business and have fungible cash flow.

The ratings assigned to the bank facilities of HAG is constrained on account of its exposure to cyclical real estate sector and financial risk profile marked by modest and fluctuating profitability with moderately leveraged capital structure and debt coverage indicators. The ratings are also constrained due to susceptibility of its profitability to volatile raw material prices, adverse movement in forex rates and exposure to regulatory and environment hazard risk.

The ratings, however, derive strength from experienced promoters, established and long track record of operations in ship breaking industry and its presence in one of largest ship breaking yard at Alang-Sisoya belt. The ratings also factors in its moderate scale of operations.

The ability of group to increase its scale of operations and profitability with improvement in its capital structure while reducing its exposure to real estate sector and timely recover/derive envisaged benefit shall be the key rating sensitivities.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

About the Company

Inducto Steel Limited- ISL

Incorporated in 1988, Inducto Steel Limited is public limited company listed at BSE and engaged in in ship breaking business in the Alang-Sosiya belt of Bhavnagar region of Gujarat with plot size of 2385 square meters having frontage of 45 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Apart from ship breaking business ISL also engaged in steel trading activities.

About the Hariyana Group

Hariyana Group is promoted by Mr. Shanti Sarup Raniwal and primarily engaged in ship breaking business and steel trading business. Besides, the group is also engaged in the real estate segment by undertaking real estate development projects in partnership firms and JVs as well as investment in real estate firms. The ship breaking activity for all the group companies is carried out at Alang-Sosiya Coastline in Gujarat.

Credit Risk Assessment

Experienced promoter

Mr. Shanti Sarup Reniwal is the founder of the Hariyana Group. The promoters are engaged in the ship-breaking business for more than 30 years. Mr. Rajeev Reniwal, Mr. Sanjeev Reniwal and Mr. Rakesh Reniwal, sons of Mr. Shanti Sarup Reniwal have been associated with the company for over 15 years and look after different business activities. The management also has prior experience in real estate development through associate concerns.

Established and long track record of operations

HAG is engaged ship breaking, real estate development, investment in real estate entities and trading of steel products. In 1981, the group ventured into ship breaking activity under the flagship company – Hariyana Ship Breakers Ltd. HSBL, HSDPL and ISL are engaged in ship breaking and had recycled around 400 ships till March 31, 2018 with capacity ranging from 1,000 light deadweight tonnage (LDT) to very large crude carriage (VLCC) of around 48,000 LDT reflecting its long and established track record of operations. Group's two entity viz. HSBL and HSDPL had up upgraded the infrastructure to comply to "Green recycling – ISO 30000:2009" which are certified by RINA S.P.A. in December, 2017. ISL had also make application for RINA S.P.A. This compliance are in

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

relation to the infrastructure and better environment friendly practices and results in lower procurement cost of ships for Group and a preference in ship recycling.

For, real estate activities group is entered with partnership with reputed players like Goyal Builders and Safal group. Group had completed various real estate project in partnership firms mainly in Bengaluru city. Group has form the partnership with Goyal group name 'Goyal Hariyana realty' for 2 projects namely Alanoville and Orchid Greens with the object of construction of Villas and residential apartments. Project Alanoville, for development of Residential Villa on the land of "M/S Value and assets holdings Private limited, Bangalore" by a Joint Venture agreement, further, the firm has started the construction in October, 2015 and expected to complete the project by December, 2018. Project Orchid Greens, for development of Residential Apartment on the land of "M/S Value and assets holdings Private limited, Bangalore" by a Joint Venture agreement, the firm has started construction in February, 2016.

For trading activities, HAG imports products like HR Coils and Plates and sells the same in domestic market.

Companies	Listed	Established	Activities	Plot Size
HSBL	Yes, on BSE	1981	Ship Breaking / Steel Trading / Real Estate	4185 Sq. Meters
HSDPL	No	1995	Ship Breaking	6000 Sq. Meters
HIPL	No	1993	Steel Trading	-
ISL	Yes, on BSE	1988	Ship Breaking	2385 Sq. Meters

Location of yard at Alang which has unique geographical features suitable for ship-breaking operations

The group's ship breaking yards are located at Alang-Sosiya belt which is considered to be one of the world's largest ship-breaking yards and caters to nearly 90% of India's ship-breaking activity. The unique geographical features of the area including a high tidal range, wide continental shelf, 15 degree slope, and a mud free coast are ideal for any size ships to be beached easily during high tide. It accommodates nearly 171 plots spread over around 10 km long stretch along the sea coast of Alang.

Moderate Scale of operation

Over the years, total operating income of the group on a combined basis has remained moderate depending upon the availability of ship for cutting along with the volatility associated with steel

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

prices. Total operating income of group stood at Rs. 433.10 crore for FY18 as against Rs.428.52 crore. In FY18, Ship breaking income forms 63% of TOI, Trading forms 32% and balance is from real estate, profits from JV and interest income.

Table 1: Segment wise revenue bifurcation

Particulars	FY15		FY16		FY17		FY18	
	Amount	%	Amount	%	Amount	%	Amount	%
Ship Breaking	395.76	56%	210.62	26%	211.51	47%	276.00	63%
Trading	258.15	36%	547.64	69%	193.47	43%	140.07	32%
Other Income	57.66	8%	40.86	5%	46.56	10%	24.58	6%
Total Gross Income	711.56	100%	799.13	100%	451.54	100%	440.65	100%
Less: Excise & other Indirect Taxes	-5.10		-8.67		-23.02		-7.55	
Total Operating Income	**706.47**		**790.46**		**428.52**		**433.10**	

Modest and fluctuating profitability with moderately leveraged capital structure and debt coverage indicators

On combined basis, HAG's Profit before Interest, Lease, Depreciation and Tax (PBILDT) margin remains modest due to low value additive nature of business apart from impact of volatile steel prices and forex rates.

Capital structure remained moderately leveraged marked by overall gearing of 1.76 times as on March 31, 2018 which had deteriorated on account of increase in LC backed acceptances with purchase of ships and trading goods (inventory increased from Rs.107.84 crore as on March 31, 2017 to Rs.341.36 crore as on March 31, 2018). However, PBILDT interest coverage ratio remained moderate at 3.94 times during FY18 improved from 2.21 times during FY17 with reduction in interest costs.

The ship-breaking entities have to park their sale proceeds into fixed deposits (FD) as per the schedule given by banks. These FDs are lien marked against the LC/BC obligation. This setup ensures gradual buildup of reserve funds to meet the LC/BC obligations at maturity. The HIBL and HSDPL have LC margin of nil and 10% in HIPL. The LC coverage ratio of the group on combined basis had improved from 0.61 times as on March 31, 2017 to 0.95 times as on March 31, 2018 on the back of increase in liquid investments. However it remains below unity.

Exposure to cyclicality associate with real estate and ship breaking industry

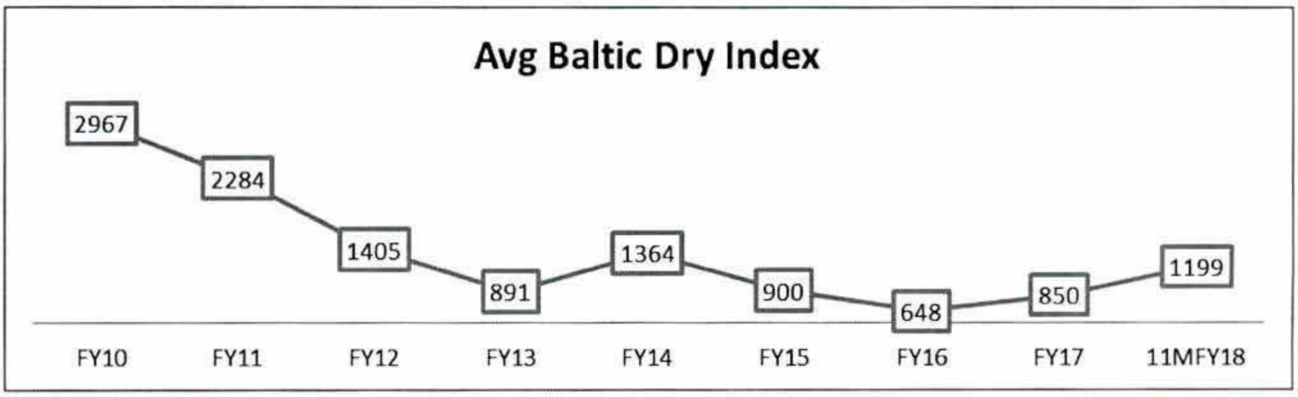
The group is also significant exposure in real estate sector which is cyclical in nature marked by its investment in partnership firms and JVs which lead to liquidity risk for business operations.

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

However, the Investment in Partnership firms (including JV) had decline to Rs.245.76 crore as on March 31, 2018 as against Rs. 321.39 crore as on March 31, 2017 leading to improvement in liquidity of the group. However, any future investment could impact is profile adversely and would be a rating sensitivity.

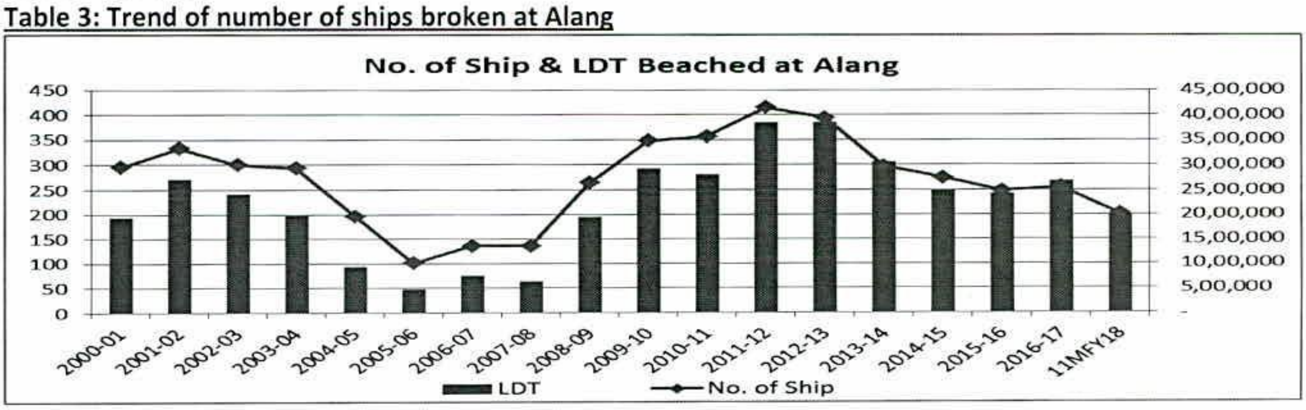
The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight index. The freight index is a function of global demand of seaborne transport and supply of new vessels which in turn depend on global merchandise trade. The Baltic Dry Index, which serves as one of the major freight indices, has shown increasing trend for the last two years ended 11MFY18, suggesting that the availability old ships has decreased over this period.

Table 2: Baltic Dry Index



Source: Lloyd's List

Table 3: Trend of number of ships broken at Alang



Source: http://www.sriaindia.com

Exposure to volatile steel/scrap prices and forex rates

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes HAG to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap held by the group. The average steel scrap prices reduced from Rs. 28,300

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

per MT during FY15 to Rs. 22,588 per MT during FY16, registering a decline of 20%. But the steel scrap prices started to improve from September, 2016 and have as on February 28, 2018 reached a level of Rs 28,750 per MT. The group also faces forex risk, as payment to be made by the firm to the ship supplier depends on the USD to INR exchange rate. There is risk of difference in the exchange rate at which LC is opened by the firm and exchange rate at which actual payment is to be done exposing its profitability to adverse foreign exchange fluctuations.

Table 4: The price movement of steel scrap for past 3 years

Source: CMIE

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, acid, hazardous paints, etc. that have to be properly disposed-off as per the regulatory guidelines.

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

Financial Performance of HAG (Combined)

(Rs. Crore)

For the period ended / as at March 31,	2016	2017	2018
	(12m, A)	(12m, A)	(12m, Prov.)
Working Results			
Net Sales	749.59	381.96	408.52
Total Operating income	790.46	428.52	433.10
PBILDT	36.14	28.34	22.71
Interest	23.45	11.69	5.50
Depreciation	2.67	2.54	1.02
PBT	13.79	15.49	18.43
PAT (after deferred tax)	11.45	11.55	11.06
Gross Cash Accruals	14.56	12.42	11.97
Financial Position			
Tangible Net Worth	234.84	246.40	257.45
Total Capital Employed	247.47	295.76	267.62
Key Ratios			
Growth			
Growth in Total Operating income (%)	11.89	-45.79	1.07
Growth in PAT (after Def. Tax) (%)	-47.53	0.86	-4.30
Profitability			
PBILDT/Total Op. income (%)	4.57	6.61	5.24
PAT (after deferred tax)/ Total income (%)	1.45	2.70	2.55
ROCE (%)	14.76	8.67	6.21
Solvency			
Long-term Debt Equity ratio (times)	0.03	0.03	0.00
Overall gearing ratio (times)*	2.02	1.13	1.76
PBILDT Interest coverage (times)	1.54	2.43	4.13
PBIT Interest coverage (times)	1.43	2.21	3.94
Term debt/Gross cash accruals (years)	0.45	0.56	0.00
Total debt/Gross cash accruals (years)*	32.51	22.49	37.94
Liquidity			
Current ratio (times)	1.16	1.46	0.99
Quick ratio (times)	1.09	1.12	0.31
Turnover			
Average inventory period (days)	28	67	198
Average collection period (days)	111	136	13
Average creditors (days)	219	315	299
Operating cycle (days)	-80	-112	-88

A: Audited Prov.: Provisional

**The overall gearing ratio and Total debt/Gross cash accruals are arrived at after consideration of LC backed creditors in total debt.*

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

Financial Performance of ISL (Standalone)

(Rs. Crore)

For the period ended / as at March 31,	2016 (12m, A)	2017 (12m, A)	2018 (12m, Prov.)
Working Results			
Net Sales	156.26	23.03	20.76
Total Operating income	163.80	27.39	22.46
PBILDT	8.70	2.74	2.00
Interest	6.39	1.48	0.87
Depreciation	0.13	0.13	0.16
PBT	2.18	1.14	0.97
PAT (after deferred tax)	1.50	0.81	0.97
Gross Cash Accruals	1.68	1.00	1.14
Financial Position			
Tangible Net Worth	42.20	43.01	43.98
Total Capital Employed	40.42	40.89	41.08
Key Ratios			
Growth			
Growth in Total Operating income (%)	-27.64	-83.27	-18.01
Growth in PAT (after Def. Tax) (%)	-67.80	-50.46	-59.44
Profitability			
PBILDT/Total Op. income (%)	5.20	8.79	3.53
PAT (after deferred tax)/ Total income (%)	0.64	1.89	0.93
ROCE (%)	22.70	5.57	1.58
Solvency			
Long-term Debt Equity ratio (times)	0.00	0.00	0.00
Overall gearing ratio (times)*	0.29*	0.00	0.00
PBILDT Interest coverage (times)	1.13	1.58	2.61
PBIT Interest coverage (times)	1.11	1.49	2.12
Term debt/Gross cash accruals (years)	0.02	0.00	0.00
Total debt/Gross cash accruals (years)*	9.88*	0.00	0.00
Liquidity			
Current ratio (times)	0.92	2.45	17.54
Quick ratio (times)	0.92	1.63	15.86
Turnover			
Average inventory period (days)	18	148	175
Average collection period (days)	261	830	9
Average creditors (days)	373	1105	178
Operating cycle (days)	-94	-127	7

A: Audited Prov.: Provisional

**The overall gearing ratio and Total debt/Gross cash accruals of FY16 are arrived at after consideration of LC backed creditors in total debt.*

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

Details of Rated Facilities

1. Long Term/Short Term Bank Facilities

1. A Non Fund Based Limits

Sr. No.	Name of Bank	Type of Facility	Rated amount (Rs. Crore)	Remarks
1	Proposed	Proposed	65.00	-
	TOTAL		**65.00**	

Total Facilities Rated = Rs.65.00 crore

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691