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CARE UPGRADES LT BANK FACILITES AND REAFFIRMS THE ST BANK FACILITES OF M/S. R. K. INDUSTRIES (UNIT-II)

CARE has revised the rating assigned to the long-term bank loans/facilities of M/s. R. K. Industries (Unit-II) (RKI) from '**CARE BB-' [Double B Minus]** to '**CARE BB+' [Double B Plus]** and has retained '**PR4' [PR Four]** rating assigned to its short-term bank loans/facilities of RKI for an aggregate amount of Rs.40 crore.

Facilities with 'Double B' rating are considered to offer inadequate safety for timely servicing of debt obligations. Such facilities carry high credit risk. This rating is applicable for facilities having tenure of more than one year. Facilities with 'PR Four' rating would have inadequate capacity for timely payment of short-term debt obligations and carry very high credit risk. Such facilities are susceptible to default. This rating is applicable for facilities having a tenure upto one year.

CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

The rating assigned by CARE is based on the capital deployed by the partners and the financial strength of the firm at present. The rating may undergo a change in case of withdrawal of capital or of the unsecured loans brought in by the partners in addition to changes in the financial performance and other relevant factors.

Facility	Amount (Rs. crore)	Rating
Long-term Bank Facilities	6.00	'CARE BB+'
Short-term Bank Facilities	34.00	'PR4'
Total	40.00	

Rating Rationale

The revision in the long-term rating takes into account substantial increase in scale of operations of RKI and improvement in its gearing level. The ratings continue to be constrained by RKI's relatively weak financial risk profile though improved in FY09, high operating risk resulting in volatile profitability and its operations in a cyclical ship breaking industry having high regulatory risk. Shree Ram Group's significant exposure to real estate project also constrained the rating. The ratings, however, continue to factor in RKI's long and established track record and Shree Ram Group's sizeable presence in the domestic ship breaking industry. RKI's ability to improve its financial risk profile, while withstanding the volatility in scrap prices and its extent of exposure to real estate industry are key rating sensitivities.

Company Profile

RKI, operational since April 1994, belongs to the Shree Ram Group of Companies based at Bhavnagar (Gujarat) and is in the business of ship breaking since 1994 and has four ship breaking yards located at Alang operated through four different entities including RKI. All four firms operate under a common management platform. At present the group operates under four different entities with each having a separate allotted area and its market share in the Alang Ship Breaking Yard is around 8%.

On a total income of Rs.84.57 crore RKI earned a PAT of Rs.1.36 crore in FY09. During 9MFY10, the company registered total income of Rs.69 crore with PAT of Rs.5.84 crore.

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