

Press Release

Salasar Balaji Ship Breakers Private Limited

January 21, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.100.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.100.00 crore bank facilities of Salasar Balaji Ship Breakers Private Limited (SBSB). The outlook is '**Stable**'.

The Gujarat based, SBSB was incorporated in 2000 by Mr. Sanjiv Chaudhary. The company is engaged in ship breaking business and trading of iron and steel products. SBSB has its Ship Breaking Yard located at Alang in Bhavnagar (Gujarat). The company is RINA class certified.

Analytical Approach

Acuite has considered standalone business and financial risk profile of SBSB to arrive at the rating.

Key Rating Drivers

Strengths

• Established presence of promoters in ship recycling industry

SBSB has established business presence of around two decades in the ship breaking business. The promoter has more than three decades of experience in ship breaking business. He is well versed with the cyclic nature of ship recycling industry. The promoter is equally supported by second line of management comprising of Mr. Abhishek Sanjiv Chaudhary and other experienced team of professionals. The long standing presence of the promoters in the industry has resulted in healthy relationship with customers and suppliers and improving profitability margins, though revenues are volatile.

SBSB is currently dismantling a ship costing Rs.150.43 crores, which is expected to show adequate revenue visibility over the near term. For eight months ended November 2018, SBSB has reported gross revenues of Rs.95.71 crore (Provisional). The company has RINA certification, guidelines for safe and environmentally sound ship recycling. These green recycling companies are preferred over non-RINA certified companies.

Further, SBSB enjoys location advantage as its operations are conducted at Alang (Gujarat) which is the world's largest ship breaking yard ensuring easy availability of ship, human resource and infrastructure.

• Effective management of cash flow mechanism

The company is currently dismantling VLCC ship weighing 42420 tons bought at a cost of Rs.150.43 crore during FY2019. The same is funded out of letter of credit (LC) of Rs.121.43 crore, and balance out of promoters' funds and unsecured loan of Rs.29.00 crore. The dismantling of the ship began in August 2018 and is expected to be completed by March 2019. SBSB is methodically accumulating the sale proceeds in the form of fixed deposits (FDs) for retirement of LCs. The first tranche of LC of Rs.62.72 crore was retired in December 2018 by applying the earmarked fixed deposits created, and partly out of working capital limits. The second tranche is to be retired in March 2019.

Acuite believes that SBSB's financial discipline in creation of FDs for retirement of LCs is expected to support its cash flow management in an effective manner while supporting growth in its revenue profile by its plan to secure additional non fund based limit for purchasing ship.

• Adequate Liquidity position

SBSB has adequate liquidity position marked by net cash accrual of Rs.1.16 crore against long term debt obligation of Rs.0.19 crore in FY 2018. The Gross Current Assets (GCA) stood high at 203 days in FY2018 as against 74 days in FY 2017. The high GCA emanates from higher inventory holding of 147 days in FY2018 as against 62 days in FY2017. The ship breaking companies have high inventory as it takes substantial period of time to dismantle the entire ship. SBSB has generated adequate cash to honor its LC tranches on the due date.

Weaknesses

• Modest financial risk profile

SBSB has moderate financial risk profile marked by modest net worth of Rs.10.33 crore as on March 31, 2018 as compared to Rs.9.38 crore as on March 31, 2017. The debt to equity stood healthy at 0.43 times as on March 31, 2018 as compared to 0.77 times as on March 31, 2017. The total debt of Rs. 4.44 crore as on March 31, 2018 includes Rs. 4.08 crore unsecured loan from promoters and other related parties, Rs. 0.17 crore of working capital facility from bank and Rs. 0.19 crore of long term loan repayable in FY 18-19. The interest coverage stood moderate at 2.41 times as on March 31, 2018 as compared to 3.30 times as on March 31, 2017. The total outstanding liabilities to total net worth stood high at 3.70 times as on March 31, 2018 as compared to 3.59 times as on March 31, 2017.

• Susceptibility of operating performance to volatility in steel demand

SBSB is currently executing ship breaking operation. The scrap is primarily sold to the rolling mills. The demand from the core user sector industry i.e. steel sector will be critical to the operating performance of the company. Any slowdown in demand or lower sales realisation vis-à-vis expectations will have bearing on the operating performance of the company.

• Exposure to environmental regulatory risk

The ship recycling industry is highly regulated by the government as the complex process of ship dismantling involves issues such as labour safety and health and further, it poses challenges on environment as well. Any stringent change in the rules and regulations may adversely impact the ship-breaking business, thereby impacting the business of SBSB.

Outlook: Stable

Acuite believes that SBSB will maintain a 'Stable' outlook in the medium term on account of management's extensive experience in the ship breaking business. The outlook may be revised to 'Positive' in case of higher than expected increase in revenues and accruals while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital cycle or less-than-expected cash accruals or any significant withdrawal of unsecured loan will lead to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	69.44	93.51	88.06
EBITDA	Rs. Cr.	1.77	2.09	1.19
PAT	Rs. Cr.	0.94	1.24	0.36
EBITDA Margin	(%)	2.55	2.24	1.35
PAT Margin	(%)	1.35	1.33	0.40
ROCE	(%)	15.47	15.53	18.15
Total Debt/Tangible Net Worth	Times	0.43	0.77	1.11
PBDIT/Interest	Times	2.41	3.30	2.02
Total Debt/PBDIT	Times	1.72	2.74	5.67
Gross Current Assets (Days)	Days	203	74	157

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-40.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00*	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A3

*Fully interchangeable with letter of credit facility. However, total facility should not exceed Rs.100.00 crore at any point of time.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294045 bhanupriya.khandelwal@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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