

Press Release

Salasar Balaji Ship Breakers Private Limited

February 06, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs100.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

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

Gujarat based, Salasar Balaji Ship Breakers Private Limited (SBSB), was incorporated in 2000 by Mr. Sanjiv Chaudhary. The company is engaged in ship breaking activity along with 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 and are well versed with the cyclic nature of ship recycling industry. The promoter is equally supported by second line of management comprising of Mr. Abhishek 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.

SBSB is currently dismantling a ship worth ~Rs.130.00 crores purchased in June 2019, which is expected to show adequate revenue visibility in FY2020. For the nine months ended December 2019, SBSB has reported gross revenues of Rs.101.68 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 human resource and infrastructure.

• Optimal management of LC maturity

SBSB procures ships for dismantling against Letter of Credit (LC) facility, which keeps liquidating in tranches. The LC payment is done through sales proceeds from selling the scrap, which starts from first month of dismantling activity, ensuring that the company has regular cash inflow and does not end up with large inventory to sell around the LC maturity. The company is currently dismantling the ship, which is in advance stage of completion and expected to be completed by April 2020.

Acuite believes that SBSB's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

Weaknesses

• Moderate financial risk profile

SBSB's financial risk profile is moderate marked by low net worth, moderate gearing and debt protection measures. The net worth improved to Rs.11.45 crore as on March 31, 2019 from Rs.10.33 crore as on March 31, 2018. The gearing deteriorated marginally to 0.68 times as on March 31, 2019 as against 0.43 as on March 31, 2018 due to higher utilization of working capital facility. The total debt

of Rs.7.79 crore consists of Rs.2.56 crore of working capital borrowing and Rs.5.23 crore of long-term borrowing. Further, the total outstanding LC limit as on Dec 31, 2019 is 60.96 crore to be retired in two tranches in February and March 2020.

The interest coverage ratio stood at ~2.40 times in FY19 as against 2.41 times in the previous year. Total Outstanding Liabilities to Total Networth (TOL/TNW) improved and stood at 1.22 times as on March 31, 2019 as against 3.70 times in the previous year.

Acuite believes that the financial risk profile will remain moderate over the medium due to fluctuating revenue profile on account of underlying business of ship breaking.

- **Exposure to environmental regulatory risk**

SBSB is exposed to environmental and regulatory risk as the ship-scraping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the labors and violation of human rights. Stringent environmental regulations may adversely impact the ship-breaking industry, thereby impacting the growth of the company.

- **Exposed to cyclicity in the industry, volatility in the steel scrap prices and forex rates and intense competition**

SBSB is exposed to inherent cyclicity in the steel sector, which could affect both ship acquisition cost and realisation from scrap. The volatility in steel prices exposes the company to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap. The company also faces increased competition from the ship breaking yards of neighboring countries such as China, Bangladesh and Pakistan. Further, it is also exposed to volatility in the forex rates for unhedged portion of the LC.

Liquidity Position: Adequate

SBSB has adequate liquidity marked by adequate net cash accruals against minimal maturing debt obligations. The company generated cash accruals of ~Rs.1.16-1.45 crore during the last three years through 2018-2019, while there was Rs.0.13 crore of maturing debt obligations in FY2019. SBSB maintains unencumbered cash and bank balances of Rs.3.27 crore as on March 31, 2019. The current ratio stood moderate at 2.38 times as on March 31, 2019 mainly contributed through high inventory holding of Rs.13.59 crore as on March 31, 2019.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals but is highly dependent on the sale of scrap as per the LC retirement cycle.

Outlook: Stable

Acuite believes that SBSB will maintain a 'Stable' outlook in the medium term on account of the promoter'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 operating margins while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or stretched liquidity position on account of any adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates.

Rating Sensitivities

- Efficient management of working capital cycle resulting in timely buildup of liquid fund for LC retirement.
- Adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	152.27	69.44
PAT	Rs. Cr.	1.13	0.94
PAT Margin	(%)	0.74	1.35
Total Debt/Tangible Net Worth	Times	0.68	0.43
PBDIT/Interest	Times	2.40	2.41

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Jan-2019	Cash Credit	Long Term	20.00*	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	80.00	ACUITE A3 (Assigned)

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

*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 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A3 (Reaffirmed)

*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: 022-49294053 bhanupriya.khandelwal@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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