

Press Release

Salasar Balaji Ship Breakers Private Limited

April 30, 2021



Rating Reaffirmed and Outlook Revised

Total Bank Facilities Rated*	Rs. 100.00 Cr
Long Term Rating	ACUITE BBB-/Outlook: Negative (Reaffirmed; outlook revised to negative from stable)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the 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). The outlook is revised from '**Stable**' to '**Negative**'.

About the Company

Gujarat based, Salasar Balaji Ship Breakers Private Limited (SBSBPL) was incorporated in 2000 by Mr. Sanjiv Chaudhary. The promoter has been in ship breaking for more than 3 decades. Prior to SBSBPL, the operations were done under family owned partnership firm, Chaudhary Industries. The company diversified its operations into trading of iron and steel products from 2016. Till date promoter has dismantled more than 100 ships over a period of more than three decades. The company undertakes ship recycling activities at its plot at Alang, Gujarat. Company is ISO 30000:2009; 9001:2015; 14001:2015 and OHSAS 18001:2007 certified. The company has also achieved statement of compliance from RINA class of Hong Kong Convention Compliance and NK class Nippon Kaiji Kyokai, Tokyo in February 2019. All these standards are related to Safe, Environment friendly and Responsible Ship recycling practices.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Salasar Balaji Ship Breakers Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The company is managed by Mr. Sanjiv Chaudhary and his son Mr. Abhishek Chaudhary who collectively possess experience of more than 3 decades in ship breaking business. The operations are backed by availability good quality ship. The long presence of the promoters in the industry has resulted in healthy relationship with customers and suppliers. Further, the company 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.

- **Moderate financial risk profile and coverage indicators**

The financial risk profile continues to remain moderate marked by moderate net worth, gearing and debt protection measures. The Tangible net worth stood at Rs. 12.26 Cr as on March 31, 2020. (FY19: Rs. 11.45 Cr and FY18: 10.33 Cr). The gearing deteriorated, however, stood moderate at 1.13 times as on March 31, 2020 as against 0.68 times as on March 31, 2019 on account of mainly increase in short term borrowings of the company. The total borrowings of Rs. 13.83 as on March 31, 2020 comprises of short term borrowings

of Rs 9.79 Cr and unsecured loan of Rs. 4.04 Cr. The net cash accruals stood at Rs. 1.12 Crore for FY2020 as against no long term debt repayment obligation. The interest coverage ratio (ICR) stood at 2.23 times in FY2020 (FY19: 2.40x and FY18: 2.41x). The total outside liabilities to tangible net worth improved and stood at 1.11x as on March 31, 2020 (FY19: 1.22x and FY18: 3.70x) on the back of decrease in unsecured loans from directors and relatives. Acuité believes that the financial risk profile of the company is expected to remain moderate with regular accretions to reserves and in no major debt funded capital expenditure planned for near term.

- **Efficient management of LC maturity:**

SBSPL procures ships for dismantling against LC which have a maturity cycle of up to 90-270 days. The LC sanction terms mention the maturity dates and the quantum of fixed deposits to be built up during the period. The schedule is followed diligently, which to a large extent ensures that the entity has regular cash inflow to honor LC commitments and does not end up with huge inventory to sell off around LC maturity. The company does not have any LC outstanding as on March 31, 2021. Going ahead, Acuité believes that SBSBPL's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

Weaknesses

- **Stable financial performance with stable profit margins albeit moderation expected in FY21**

The company has reported a decrease in revenue in FY2020 at Rs. 137.50 Cr as against Rs. 152.27 Cr in FY2019 on the back of reduced realization from dismantling of the ship. The company outperformed on account of early dismantling of ship. However, revenue in FY21 is expected to dampen as the company expects a revenue of Rs. 15.99 Cr in FY21 due to the covid-19 pandemic induced circumstances. The PBDIT margin of the company has remained stable in FY2020 at 2.08% (FY19: 2.02% and FY18: 2.55%), however, there has been a decline in 2019 on account of purchasing of ship at the time when commodity prices were high and subsequently the prices fallen down.

- **Working capital Intensive nature of business**

The ship for recycling is purchased in one go, by opening LC in favor of seller, while realization through sales proceeds may take 3 to 9 months depending on the size of ship. This gap between purchases of ship and cash realization results in high inventory. The Gross current asset (GCA) days have increased to 65 days as on March 31, 2020 from 49 days as on March 31, 2019. The increase is mainly on account of increase in inventory holding days to 46 as on March 31, 2020 from 33 days as on March 31, 2019. However, Acuité believes that being into a shipping breaking industry the operations of the company will remain working capital intensive as the nature of the business requires the company to have high inventory holding period and is inherent in this industry.

- **Exposure to risks related to cyclical and fragmented industry:**

SBSBPL is exposed to inherent cyclical 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. Further, the viability of the business is inversely correlated with the international freight index. The company has to compete with small players during limited availability of vessels. Domestic players also face competition from ship-breakers of neighboring countries such as China, Bangladesh, and Pakistan.

- **Exposure to environmental regulatory risk**

SBSBPL 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 shipbreaking industry, thereby impacting the growth of the company.

- **Exposure to volatility in foreign exchange fluctuation risk and scrap rates:**

The ship purchases are in foreign currency while realization is in domestic currency (Indian Rupees). Though the company uses forwards to hedge its forex risk, the cover is partial and taken based on management expectations on forex movement over a long duration of LC ranging from 90 to 270 days. Also, the scrap rates are volatile over the period of ship breaking which impacts the margin.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- 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

Liquidity Position: Adequate

The company maintains a stable liquidity position marked by net cash accruals of Rs. 1.12 Cr and Rs. 1.45 Cr as on financial year ended March 31, 2020 and March 31, 2019 respectively against no major long term debt repayment over the same period. The current ratio of the company stood at 2.37x as on March 31, 2020 and 2.38x as on March 31, 2019 while NCA/TD stood at 0.08 times as on March 31, 2020 and 0.19 times in the previous year. The company had cash and bank balances of Rs. 0.07 Cr as on March 31, 2020. The average working utilization of the company for past twelve months ended March'2021 stood low at 36.15%

Outlook: Stable

Acuité believes that SSBPL will maintain a 'Negative' outlook in the medium term on account of significant decline in revenues and limited revenue visibility due to less order in hand. 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 'Stable' in case of moderate order in hand visibility via management's extensive experience in the ship breaking business and increase in revenue and comfortable cash flows and accruals.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	137.50	152.27
PAT	Rs. Cr.	0.81	1.13
PAT Margin	(%)	0.59	0.74
Total Debt/Tangible Net Worth	Times	1.13	0.68
PBDIT/Interest	Times	2.23	2.40

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Feb-2020	Cash Credit	Long Term	20.00*	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	80.00	ACUITE A3 (Reaffirmed)
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.)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00*	Punjab National Bank	ACUITE BBB-/Negative (Reaffirmed; outlook revised to negative from stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	80.00	Punjab National Bank	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.

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About Acuité Ratings & Research:

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