

Press Release

Salasar Balaji Ship Breakers Private Limited

July 22, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB- Stable Downgraded Negative to Stable	-
Bank Loan Ratings	80.00	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.100.00 crore bank facilities of Salasar Balaji Ship breakers Pvt Ltd.(SBSBPL). The outlook is revised to '**Stable**'.

Rationale for rating downgrade

The downgrade in the rating is reflective of significant deterioration in the scale of operations of SBSBPL. The revenue of the company deteriorated from Rs.137.50 Cr in FY2020 to Rs.15.48 Cr in FY2021 and Rs.2.65 Cr in FY2022. Such deterioration is seen as the company was unable to purchase any ships for dismantling in the last two years on account of the Covid induced lockdown and high prices of the ship. Further, the rating also factors in the uncertainty around the medium term revenue visibility. The outlook is however revised from negative to stable on account of SBSBPL's experienced promoters and increased focus on the trading segment of the business through MOU's signed with various entities for sale of metal scrap.

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

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. Acuité believes that SBSBPL will continue to benefit over the medium term on the back of the experience of the promoters.

Moderate financial risk profile and coverage indicators

Financial risk profile is moderate marked by a moderate Tangible Net worth, low gearing and comfortable debt protection metrics. Tangible networth of the company stood at 12.33 Cr as on 31st March, 2022 (Prov.) as against 12.04 Cr as on 31st March, 2021. Gearing of the company remained low at 0.24 times as on 31st March, 2022 (Prov.) as against 0.49 times as on 31st March, 2021. Total debt of the company stood at Rs.2.95 Cr as on 31st March 2022 as against Rs. 5.87 Cr as on 31st March 2021. Total debt of the company comprises of unsecured loans from directors and relatives. TOL/TNW of the company stood at 0.18 times as on 31st March, 2022 (Prov.) as against 0.43 times as on 31st March, 2021. NCA/Total Debt stood at 0.16 times in FY2022 (Prov.) The company has a sanctioned CC limit of 20 Cr and an LC limit of Rs. 100 Cr. Both the limits remain unutilised. Further, the company does not have any term loans. Hence the debt protection metrics remain comfortable.

Acuité believes that the financial risk profile will remain moderate in the near to medium term on account of and steady improvement in profitability and utilization of bank limits.

Weaknesses

Deteriorating operating performance

Operating performance of Salasar Balaji Ship Breakers Pvt Ltd (SBSBPL) has seen a deterioration with a Y-o-Y degrowth of 85% in its revenue. Revenue of the company has seen a deterioration from Rs. 137.50 Cr in FY2020 to Rs.15.48 Cr in FY2021 and Rs.2.65 Cr in FY2022 (Prov.) SBSBPL was unable to purchase any ships for dismantling in the last two years on account of the Covid induced lockdown and high prices of the ship. SBSBPL had purchased a 37,695 MT ship in FY2020 for Rs.104.68 Cr and continued to record sale proceeds from dismantling of the ship through FY2021 and FY2022. For 3MFY2023 the company has recorded Rs.3.5 Cr of revenue.

The company has signed Memorandum of Understanding with three entities for sale of Copper, Bras, Nickle, Stainless steel and other melting scraps. Such scraps will be sourced from other shipbreakers, factories or from its own dismantled inventory. However, such MOU's are non-binding in nature.

SBSBPL recorded operating losses on account of deterioration in scale of operations. PAT margins saw an improvement from 0.89% in FY2021 to 11.09% in FY2022 on account of increase interest and other income.

Acuite believes that the improvement in scale of operations and profitability levels will remain key sensitivities factors in the medium term.

Intensive working capital operations

Working capital operations of the company are intensive marked by GCA days of 1,879 days in FY2022 (Prov.) as against 379 days in FY2021. High GCA days are driven by other current assets and high inventory holding period. Other current assets comprise of refundable deposit for bidding of ships of Rs.10 Cr. Further, SBSBPL has been unable to record sales on account of covid induced lockdown and absence of ships for dismantling. Hence, there is a

pile up of inventory.

Acuité believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity

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 shipbreakers of neighboring countries such as China, Bangladesh, and Pakistan.

Exposure to environmental regulatory risk and volatility in foreign exchange fluctuation risk and scrap rates:

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.

Further, 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: Moderate

Liquidity of the company is moderate with net cash accruals of Rs.0.48 Cr in FY2022 (Prov.) with no maturing debt obligation. The company is expected to generate net cash accruals of Rs.0.65-0.53 Cr in the medium term with no debt obligations. The working capital limits of the company also remain unutilised.

Outlook: Stable

Acuité believes that SBSBPL will continue to maintain a 'Stable' outlook over the medium term owing to its experienced and technically qualified management. The outlook may be revised to 'Positive' if the company reports significant improvement in revenue and scale of operations while maintaining operating profitability leading to higher cash accruals. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue and profitability leading to lower than expected cash accruals or deterioration in the financial risk profile

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	2.65	15.48
PAT	Rs. Cr.	0.29	0.13
PAT Margin	(%)	11.09	0.83
Total Debt/Tangible Net Worth	Times	0.24	0.49
PBDIT/Interest	Times	465.53	2.24

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

Not applicable

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Apr 2021	Letter of Credit	Short Term	80.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB- Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A4 Downgraded

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About Acuité Ratings & Research

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