



Press Release
SALASAR BALAJI SHIP BREAKERS PRIVATE LIMITED
December 27, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BB- Stable Downgraded	-
Bank Loan Ratings	75.00	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

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

Rationale for rating downgrade

The downgrade in the rating is on account of lower than expected operating performance of company. The company generated a revenue of Rs.7.17 Cr in FY2023 and Rs.2.65 Cr in FY2022. The company was expected to recover significantly in FY2023, however, due to lack of purchase of new ships for dismantling in the last two years, the operating performance has been dismal. Also, the rating considers high GCA days of 1245 days in FY2023 along with deterioration in the PAT margins which stood at 3.40 percent in FY23 as against 7.34 percent in FY2022 on account of high interest costs. The Debt-EBITDA levels also stood at 14.23 times in FY2023 as against 6.16 times in FY2022. Going forward, the company ability to improve its scale of operations and profitability margins along with working capital cycle will be key rating monitorable.

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite 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 Net worth, low gearing and comfortable debt protection metrics. Tangible net worth of the company stood at 12.48 Cr as on 31st March, 2023 as against 12.23 Cr as on 31st March, 2022. Gearing of the company remained low at 0.82 times as on 31st March, 2023 as against 0.24 times as on 31st March, 2022. Total debt of the company stood at Rs.10.17 Cr as on 31st March 2023 as against Rs.2.95 Cr as on 31st March 2022. Total debt of the company comprises of unsecured loans from directors and relatives of Rs.3.67 Cr and short-term debt of Rs.6.50 Cr. TOL/TNW of the company stood at 1.02 times as on 31st March, 2023 as against 0.19 times as on 31st March, 2022. NCA/Total Debt stood at 0.04 times in FY2023 as against 0.13 times in FY2022. 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

Although Operating performance of Salasar Balaji Ship Breakers Pvt Ltd (SBSBPL) has seen some improvement in its revenue which stood at Rs.7.17 Cr in FY2023 as against Rs.2.65 Cr in FY2022. SBSBPL has not purchased any ships for dismantling in the last two years on account of high prices of the ship. However, it 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. Further, the company has not been able to meet the expectations in revenue and profitability from Acuite's projections for FY2023. Also, the PAT margins saw decline of 3.40 percent in FY2023 as against 7.34 percent 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 going ahead.

Intensive working capital operations

Working capital operations of the company remain intensive although improvement shown in GCA days of 1245 days in FY2023 as against 1878 days in FY2022. High GCA days are driven by other current assets. Other current assets comprise of security deposit for power plant of Rs.22 Cr. The inventory days stood at 61 days in FY2023 as against 185 days in FY2022. Further, Debtor days stood at 18 days in FY2023. Creditor days stood at 01 day in FY2023 as against 04 days in FY2022.

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 neighbouring 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 unfavourable movements in foreign exchange rates

All Covenants

None

Liquidity Position: Stretched

Liquidity of the company is stretched with modest net cash accruals in the range of Rs.0.36-0.41 Cr from FY2021-23 with no maturing debt obligation. The company is expected to generate net cash accruals of Rs.0.89-1.28 Cr in the medium term with no debt obligations. The LC limits of the company still remain unutilised. The working capital management of the company is intensive marked by GCA days of 1245 days in FY2023 as against 1878 days in FY2022. The company maintains unencumbered cash and bank balances of Rs.0.09 crore as on March 31, 2023. The current ratio stands at 2.47 times as on March 31, 2023.

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

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	7.17	2.65
PAT	Rs. Cr.	0.24	0.19
PAT Margin	(%)	3.40	7.34
Total Debt/Tangible Net Worth	Times	0.82	0.24
PBDIT/Interest	Times	2.23	364.34

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Sep 2022	Cash Credit	Long Term	20.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Letter of Credit	Short Term	80.00	ACUITE A4+ (Upgraded from ACUITE A4)
22 Jul 2022	Letter of Credit	Short Term	80.00	ACUITE A4 (Downgraded from ACUITE A3)
	Cash Credit	Long Term	20.00	ACUITE BB- Stable (Downgraded from ACUITE BBB- Stable)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A4 Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB- Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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