

Press Release

Baijnath Melaram

November 22, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its short term rating of '**ACUITÉ A3**' (read as **ACUITE A Three**) on the Rs 100.00 Cr. bank facilities of Baijnath Melaram (BM).

Rating Rationale

The rating draws comfort from the firm's long track record of operations and extensive experience of the management along with the firm's established market position in the ship breaking industry. Further, the rating considers BM's moderate financial risk profile marked by low gearing and moderate debt coverage indicators. The rating also takes into account the firm's adequate liquidity and its improved working capital cycle during FY 2022. The rating is however constrained by limited scale of operations, vulnerability of margins to steel price fluctuations and susceptibility of profits to volatility in scrap prices and fluctuations in the forex rates.

About the Firm

Baijnath Melaram is established as partnership firm in 1958, BM involved in Ship-Breaking and Import & Trading of steel products. The operations of the firm are managed by Shri Vinod Kumar Agarwal and Shri Bhupendra Kumar Agarwal, who collectively have an experience of over two decades in ship breaking industry. Prior to 1962, BM was solely into trading in Steel Products. The firm forayed into Ship-Breaking in 1962 having leased an 85 Meter Plot at Alang in Bhavnagar, Gujarat. It has a capacity to accommodate three vessels. The steel trading is carried out from its Mumbai office.

About the Group

Baijnath Melaram has been in the Ship Recycling Industry for almost 5 Decades now. It started off recycling vessels using Hammer and Chisel in Mumbai. Today managed and run by the 4th Generation, Mr. Nitesh Agarwal. With education in Entrepreneurship and Finance, he is able to take business to newer heights. Since inception, the company has successfully recycled more than 300 Vessels including 2 submarines. Constant improvements to achieve productive efficiency without harming the environment, has enabled the family run business to be competitive. The company has successfully achieved Statement of Compliance (SOC) for HKC from Class NK certification. Furthermore, very recently, the company was also able to get certification for EU SRR (European Union Ship Recycling Regulation) from ClassNK as well.

The company proudly boasts ISO Certifications (ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, and ISO 30000:2009) from a very reputed organization, BUREAU VERITAS.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BM to arrive at the rating.

Key Rating Drivers

Strengths

Established presence of promoters in ship recycling industry

BM has established business presence of around four decades in the ship-breaking business and the promoter family holds more than four decades of experience in the said business line. The business model entails acquiring old ships, dismantling them and recovering the investment through sale of scrap and parts. The long presence of the management in the industry has resulted in establishing healthy relationship with its customers. The promoters are well versed with price dynamics of ship breaking industry and has developed healthy relations with various ship aggregators, which helps in buying ships at competitive rates depending on the market scenario. The company has successfully achieved Statement of Compliance (SOC) for HKC from Class NK certification. Furthermore, very recently, the company was also able to get certification for EU SRR (European Union Ship Recycling Regulation) from ClassNK as well. The company proudly boasts ISO Certifications (ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, and ISO 30000:2009) from a very reputed organization, BUREAU VERITAS. Further, BM 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 the group will continue to benefit from its experienced management and long track record of operation in the ship demolition industry.

Moderate financial risk profile and improved operating performance

BM's financial risk profile is moderate marked by low gearing, and comfortable debt coverage indicators. The gearing stood stable at 0.13 times as on March 21, 2022, as against 0.19 as on March 31, 2021. BM relies on non-fund-based bank facilities like LC in order to undertake its business activities. Further, the debt protection metrics have stood moderate with interest coverage ratio and DSCR at 12.98 times for FY 2022 against 5.98 times in FY 2021 and 8.89 times in FY 2022 and 5.98 times in FY 2021. The group reported improved operating performance during FY 2022 marked by a revenue growth of around 95.41 percent over the previous year. BM reported revenues at Rs. 286.66 Cr in FY 2022 as against Rs. 146.70 Cr. in FY 2021. The operating margins in FY 2022 stood at 8.64 percent against 9.32 percent in FY 2021. The deterioration in operating margins is primarily due to fluctuating steel prices. Further the group generated cash accruals of Rs. 15.75 Cr in FY 2022 against Rs. 11.44 Cr. during FY 2021. Acuité believes that the firm will maintain a moderate financial risk profile over the medium term in absence of any external long-term borrowings.

Weaknesses

Vulnerability of margins to steel price fluctuations & Profitability susceptible to fluctuations in foreign exchange rates

BM purchases ships ranging from 10,000 MT to 28,000 MT which takes around four to ten months for dismantling depending on the tonnage of the vessel. During the dismantling period the inventory buildup is significantly high. The prices of the steel are fluctuating and any adverse movement in the prices impacts BM's profitability margin. The vessel purchase transaction is typically denominated in USD and is generally backed by 90-360 days of letter of credit. Moreover, the scrap sales are typically in the domestic market with realizations being denominated in the Indian Rupee. Consequently, BM remains exposed to any adverse movement in foreign currency exchange rate. Any upward revision in the dollar-rupee exchange rate increases the purchase cost of the vessels. Though the group uses forwards to hedge its forex risk, the cover is taken based on management's expectations on forex movement over a longer duration of LC ranging from 90 to 360 days. Further, the firm is also

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 laborers and violation of human rights.

Rating Sensitivities

- Increase in scale of operations thereby maintaining the operating profitability
- Substantial fluctuations in steel prices

Material covenants

None

Liquidity Position Adequate

The firm has adequate liquidity marked by net cash accruals to the tune of Rs. 15.75 Cr. against no debt obligations during FY 2022. The cash accruals of the company are estimated to remain in the range of around Rs. 17.54 Cr to Rs. 18.63 Cr during FY 2023 & FY 2024 against no maturing obligations as currently the firm does not have any long-term obligations in its bucket. However, the firm relies on non-fund based borrowings like LC in order to meet its daily business requirements and timely availability of funds for retirement of the maturing LCs remains critical. The LC limits remain utilized on an average of 82 percent for 6 months ended September, 2022. Further, company's working capital operations have improved marked by gross current asset (GCA) days of 90 days in FY 2022 against 341 days in FY 2021. The current ratio marginally deteriorated and stood at 1.16 times as on March 31, 2022 against 1.27 times as on March 31, 2021.

Outlook

None

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	286.66	146.70
PAT	Rs. Cr.	15.34	11.17
PAT Margin	(%)	5.35	7.61
Total Debt/Tangible Net Worth	Times	0.13	0.19
PBDIT/Interest	Times	12.98	5.98

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <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:

Not applicable

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	100.00	ACUITE A3 Assigned

Note:

The entity has availed sub-limits in the below manner against the Rs. 100 crore facility from PNB:

- Sublimit of LC for Cash Credit – Rs. 20.00 crores
- Sublimit of LC for Forward Exposure – Rs. 2.00 crores

Contacts

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About Acuité Ratings & Research

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