



**Press Release**  
**Baijnath Melaram**  
**May 30, 2023**  
**Rating Assigned and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	-	ACUITE A3   Assigned
Bank Loan Ratings	100.00	-	ACUITE A3   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	150.00	-	-

**Rating Rationale**

Acuité has reaffirmed its short term rating of '**ACUITÉ A3**' (read as **ACUITE A Three**) on the Rs 100.00 Cr. bank facilities of Baijnath Melaram (BM).  
Acuité has also assigned its short term rating of '**ACUITÉ A3**' (read as **ACUITE A Three**) on the Rs 50.00 Cr. bank facilities of Baijnath Melaram (BM).

**Rationale for the reaffirmation**

The rating reaffirmation takes into account the stable operating and financial performance of BM in FY2023. The revenue of the firm stood at Rs.232.39 Cr in FY2023 (prov) as against Rs.286.66 Cr in FY2022, while the operating margins stood at 2.34 percent in FY2023 (Prov) as against 8.64 percent in FY2022. The revenue and margins earned in FY2022 were an aberration primarily due one-time gains earned due to significant decline in ship prices post Covid-19. The operating margins are estimated to remain in the range of 2-4 percent over the medium term. The rating draws comfort from improved financial risk profile of the firm marked by significant reduction in total debt. The rating also takes into account the firm's adequate liquidity and its improved working capital cycle during FY2023 (prov). The rating is however constrained by the vulnerability of margins to steel price fluctuations and susceptibility of profits to volatility in scrap prices and fluctuations in the forex rates

**About the Company**

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.

### Strengths

#### **Established presence of promoters in the ship recycling industry**

BM has an 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 the sale of scrap and parts. The long presence of the management in the industry has resulted in the establishment of healthy relationships with its customers. The promoters are well versed in the price dynamics of the shipbreaking industry and have 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 a 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. The company proudly boasts ISO certifications (ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, and ISO 30000:2009) from a very reputed organisation, Bureau Veritas. Further, BM enjoys a location advantage as its operations are conducted at Alang (Gujarat), which is the world's largest shipbreaking yard, ensuring easy availability of ships, human resources, 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.**

The financial risk profile of BM is moderate, marked by improved gearing (debt to equity ratio) and moderate total outside liabilities to total net worth (TOL/TNW), improving net worth, and moderate debt protection metrics. The tangible net worth of the company stood moderately at Rs.45.84 crore as on March 31, 2023 (prov) against Rs.40.77 crore as of March 31, 2022, while the total debt reduced to Rs. 0.02 crore as of March 31, 2023 (Prov) as against Rs.5.46 Cr as on March 31, 2022. Further, the debt protection metrics have stood moderately, with the interest coverage ratio and DSCR at 3.52 times for FY 2023 (prov) against 12.98 times in FY 2022 and 3.42 times in FY 2023(Prov) and 8.89 times in FY 2022 . BM relies on non-fund-based bank facilities like LC in order to undertake its business activities. Acuité believes that the firm will maintain a moderate financial risk profile over the medium term in the absence of any external long-term borrowings and no debt funded capex plan.

#### **Efficient working capital management**

BM's working capital operations are efficient and stand as moderate, marked by gross current asset days (GCA) of 81 days in FY2023 (prov) and FY2022. The inventory days stood at 40 days in FY2023 (prov) against 31 days in FY2022. The debtors' days stood at 26 days in FY2023 (prov) against 17 days in FY2022. The creditors' days improved and stood at 57 days in FY2023 (prov) against 69 days in FY2022. Further, the average bank limit utilisation in the last seven months ended April, 23 remained at ~36 percent for fund based limits and ~39 percent for non-fund-based based. Acuité believes that efficient working capital management will be crucial to the BM'S in order to maintain a stable credit profile.

### 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 take around four to ten months for dismantle 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 letters of credit. Moreover, the scrap sales are typically in the domestic market, with realisations denominated in the Indian rupee. Consequently, BM remains exposed to any adverse movement in the 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 for issues relating to environmental pollution, health problems of the

labourers, and violations 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**

BM's liquidity position is adequate, with adequate net cash accruals and average utilisation of fund based and non-fund based working capital limits. Net cash accruals stood at Rs.6.12 crore in FY2023 (prov), and Rs.15.75 crore in FY2022. The cash accruals of the BM's are estimated to remain around Rs.7.51 -8.48 crore during 2024-26. Further, the firm does not have any long term debt, thus, there are no maturing portions of long term debt that are due to be serviced. The current ratio stood average, 2.06 times ended with March 31, 2023. Further, the average bank limit utilisation in the last seven months ended in April 23, which remained at 36 percent for fund based limits and 39 percent for non-fund-based limits. Unencumbered cash and bank balances stood at Rs.8.35 crore as of March 31, 2022 and liquid investments stood at Rs.17.32 crore as of March 31, 2023 (Prov).

### **Outlook**

None

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	232.39	286.66
PAT	Rs. Cr.	5.69	15.34
PAT Margin	(%)	2.45	5.35
Total Debt/Tangible Net Worth	Times	0.00	0.13
PBDIT/Interest	Times	3.52	12.98

### 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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Nov 2022	Letter of Credit	Short Term	100.00	ACUITE A3 (Assigned)

## 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   Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A3   Assigned

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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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