

## Press Release

**BAIJNATH MELARAM PRIVATE LIMITED (ERSTWHILE BAIJNATH MELARAM PRIVATE LIMITED)**  
**May 14, 2024**



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	150.00	-	ACUITE A3   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	225.00	-	-

### Rating Rationale

Acuite has reaffirmed its short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 150.00 Cr. bank facilities of BAIJNATH MELARAM PRIVATE LIMITED (ERSTWHILE BAIJNATH MELARAM) (BMPL). Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs 75.00 Cr. bank facilities of BAIJNATH MELARAM PRIVATE LIMITED (ERSTWHILE BAIJNATH MELARAM) (BMPL). The Outlook is '**Stable**'.

### Rationale for the reaffirmation

The rating reaffirmation considers BMPL's stable operating income and above-average financial risk profile. The company recorded operating income of Rs.234.89 Cr. in FY2023 as against Rs.286.66 Cr. in FY2022. Further, BMPL has reported revenue of Rs.216.30 Cr. in FY2024. The operating profit margin moderated to 3.49 percent in FY2023 from an exceptional high of 8.64 percent in FY2022. The rating further draws comfort from the above-average financial risk profile of the company, which is marked by nominal debt levels and a moderate net worth position. The tangible net worth of the company stood at Rs.42.19 Cr. as on 31 March 2023 as against Rs.40.77 Cr. as on 31 March 2022. Further, the working capital operations are moderately efficient, which is supported by the moderate utilisation of working capital limits. The rating is, however, constrained by the vulnerability of margins to steel price fluctuations and the susceptibility of profits to volatility in scrap prices and fluctuations in forex rates. Acuite believes the timely retirement of its LCs will remain a key monitorable.

### About the Company

Baijnath Melaram Private Limited (Erstwhile Baijnath Melaram) was established as a partnership firm in 1958. Mumbai-based Baijnath Melaram is involved in the ship-breaking business and the trading of steel products. Later on, the firm became private limited company in the June 2023. The operations of the company are managed by Mr. Vinod Kumar Melaram Agarwal, Mr. Bhupendkumar Melaram Agarwal and Mr. Nitesh Bhupendkumar Agarwal who collectively have over two decades of experience in the shipbreaking 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.

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 as well. The company also holds ISO certifications (ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, and ISO 30000:2009) from a very reputed organization, BUREAU VERITAS.

Further, to achieve EUSRR (EU Ship Recycling Regulation), the company has successfully

installed an offshore crane, with a capacity of 150 metric tons, in the middle of the sea. This enables the company to lift any part of the vessel directly from the ship to the impermeable

floor without dropping any blocks in the intertidal zone.

## Unsupported Rating

Not Applicable

## Analytical Approach

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

## Key Rating Drivers

### Strengths

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

BMPL 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 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. BMPL 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. Further, the company has successfully achieved a Statement of Compliance (SOC) for HKC from Class NK certification. Furthermore, the company was also able to get certification for EU SRR (European Union Ship Recycling Regulation) from Class NK.

BMPL recorded operating income of Rs.234.89 Cr in FY2023 as against Rs.286.66 Cr in FY2022. The operating margin stood at 3.49 percent in FY2023. Further, BMPL has reported revenue of Rs.216.30 Cr in FY2024 with an operating margin of 2.09 percent and a PAT margin of 1.85 percent. The decline in steel prices in the H2FY2024, resulted in a moderation in operating margin. This is partially mitigated by the favorable volatility in prices of nonferrous metals in FY2024.

Acuité believes that the BMPL will continue to benefit from its experienced management and long track record of operation in the ship demolition industry.

#### **Above Average financial risk profile.**

The financial risk profile of the company is above-average marked by low gearing (debt to equity ratio) and above-average total outside liabilities to total net worth (TOL/TNW) ratio, improving networth, and moderate debt protection metrics.

The tangible net worth of the company stood moderate at Rs.42.19 Cr as on 31 March 2023 against Rs.40.77 Cr as on 31 March, 2022. Post conversion into a private limited company in FY2024(E), the networth of the company stood at Rs.33.89 Cr. The total debt of Rs.0.47 Cr as on 31 March 2023 consists of unsecured borrowings from the directors. The gearing ratio stood at 0.01 times as on 31 March 2023 as against 0.13 times as on 31 March 2022. Further, TOL/TNW of the company improved and stood at 0.88 times as on 31 March 2023 as against 1.62 times as on 31 March 2022. The interest coverage ratio (ICR) of the company is moderate, at 4.14 times as on 31 March 2023. However, BMPL relies on non-fund-based bank facilities like a Letter of Credit (LC) in order to undertake its business activities. The timely retirement of the LCs will remain critical to the business.

Acuité believes that the financial risk profile of the company continues to be above-average as there is minimal dependency on long-term debt for business operations.

#### **Moderately efficient working capital operations**

The company's working capital operations are moderately efficient, marked by moderately efficient Gross Current Asset (GCA) days of 83 days as on 31 March 2023 as against 63 days as on 31 March 2022. The increase in GCA days is driven by an increase in inventory and debtor days. The inventory days stood at 40 days as on 31 March 2023 as against 31 days as on 31 March 2022. The debtors' days stood at 24 days as on 31 March 2023 as against 17 days as

on 31 March 2022. The creditors' days stood at 56 days as on 31 March 2023 against 69 days as on 31 March 2022. Further, the average bank limit utilisation for non-fund based facilities stood at 49.62 percent for the last 12 months ending February 2024.

Acuite believes that the working capital operations of BMPL will continue at similar levels owing to the nature of business operations.

### **Weaknesses**

#### **Vulnerability of margins to steel price fluctuations and profitability susceptible to fluctuations in foreign exchange rates**

BMPL purchases ships ranging from 10,000 MT to 28,000 MT, which take around four to ten months to dismantle, depending on the tonnage of the vessel. During the dismantling period, the inventory buildup is significantly high. The prices of steel are fluctuating, and any adverse movement in the prices impacts BMPL'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, BMPL 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 for forex movement over a longer duration of LC, ranging from 90 to 360 days. Further, the company 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**

- Improving scale of operations while maintaining profitability margins.
- 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.

### **Liquidity Position: Adequate**

The BMPL's liquidity position is adequate with moderate utilization of fund-based and nonfund based working capital limits. BMPL has generated net cash accruals of Rs.4.14 crore in FY2023, and Rs.15.75 crore in FY2022. The cash accruals of the BSML's are estimated to remain around Rs.4.37 -Rs.6.12 crore during 2024-26. Further, the company does not have any longterm debt, thus, there are no maturing portions of long-term debt that are due to be serviced. The company enjoys short-term borrowing by means of Letter of Credit and Cash Credit facilities, with no instances of overdrawn in the Cash Credit account. The current ratio stood moderate at 1.84 times as on March 31, 2023. Unencumbered cash and bank balances stood at Rs.4.70 crore as on March 31, 2023 and liquid investments stood at Rs.13.98 crore as on March 31, 2023.

Acuite believes that the liquidity position of the company will continue to be adequate with no long-term debt outstanding and moderate bank limit utilisation.

### **Outlook: Stable**

Acuite believes that the outlook of the company will remain 'stable' over the medium term because of the management's extensive experience in the shipbreaking industry and stable operating income. The rating may be revised to 'positive' in case of higher-than-expected improvement in the operating performance, including profitability while maintaining its working capital cycle. The outlook may be revised to 'negative' in case of deterioration in the operating performance and accruals or stretched liquidity position on account of any adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates.

### **Other Factors affecting Rating**

None



## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	234.89	286.66
PAT	Rs. Cr.	3.72	15.34
PAT Margin	(%)	1.58	5.35
Total Debt/Tangible Net Worth	Times	0.01	0.13
PBDIT/Interest	Times	4.14	12.98

### 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>
- 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>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.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
30 May 2023	Letter of Credit	Short Term	100.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A3 (Assigned)
22 Nov 2022	Letter of Credit	Short Term	100.00	ACUITE A3 (Assigned)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Complexity Level</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	75.00	ACUITE BBB-   Stable   Assigned
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	150.00	ACUITE A3   Reaffirmed



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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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