

P. Rajesh Ship Breaking Private Limited

January 04, 2023

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|--|--|---------------|
| Long Term / Short Term Bank Facilities | 100.00 (Enhanced from 50.50) | CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four) | Reaffirmed |
| Short Term Bank Facilities | 2.00 (Enhanced from 1.00) | CARE A4 (A Four) | Reaffirmed |
| Total Bank Facilities | 102.00 (₹ One Hundred Two Crore Only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

For, arriving at the ratings of P. R.ajesh Ship Breaking Private Limited (PRSBPL), CARE has considered combined financial and business profiles of P Rajesh Ship Breaking Private Limited (PRSBPL) and Shubh Arya Steel Private Limited (SASPL) as these companies collectively referred as Shubh Arya Group (SAG), having common promoters, engaged in similar line of business and have fungible cash flow.

The ratings assigned to the bank facilities of SAG continue to derive strength from experienced promoters, established track record of operations in ship breaking industry and its presence in one of largest ship breaking yard at Alang-Sisoya belt and various certification for green recycling.

The rating, however, continued to remain constrained on account of moderate scale of operations, moderate debt coverage indicators and susceptibility of its profitability to volatile steel prices and adverse movement in forex rates. The ratings also factors in cyclicity associated with ship breaking industry and exposure to regulatory and environment hazard risk.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations to more than Rs.200 crore alongside PBILDT margins of more than 6% on a sustainable basis.
- Improvement in LC coverage ratio to more than 1.3 times on a sustained basis.

Negative Factors – Factors that could lead to negative rating action/upgrade:

- Decline in scale of operations to Rs.60 crore alongside PBILDT margins of lower than 3% on a sustained basis
- Deterioration in LC coverage to less than 1.1 times on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and profitability: Over the years, total operating income of the group on a combined basis has remained moderate and vary as per the availability of ship for cutting along with the volatility associated with steel prices. During FY22 (A), TOI of SAG stood at Rs. 108.62 crore as against Rs. 90.70 crore in FY21(A). Further, the company reported TOI of Rs. 40.82 crore for 8MFY23 (UA).

PBILDT margin of SAG have remained fluctuating and moderate due to low value additive nature of business apart from impact of volatile steel prices and forex rates. The PBILTD margins of the company has improved on a combined basis from 3.83% to 6.05% in FY22 (A). This improved profitability is basically due to increased prices of steel leading to better realizations in FY22. The PAT margin also improved by 302 bps during FY22 over FY21. Wastage in FY22 has increased. Net quantity sold was less than previous years and Gross margin spread is higher because of higher steel scrap prices as compared to previous years.

Moderate debt coverage: The overall gearing of SAG stood at 4.23 times, as on March 31, 2022 as compared to 1.62 times as on March 31, 2021, due to increase in the outstanding 'LC backed creditors' as on March 31, 2022. Also, during FY22, the debt service coverage indicators improved and remained moderate marked by PBILDT Interest coverage of 3.36 times (P.Y.: 1.65 times) and Total Debt/GCA of 26.97 times as on March 31, 2022 as against 30.44 times as on March 31, 2021.

Exposure to volatility in steel/scrap prices and foreign rates; but hedging policy provides some protection: The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes SAG to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap held by the group. The group uses Letter

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of Credit (LC) facility to purchase old ships. Since the transactions are denominated in foreign currency, the firm is exposed to forex risk, as the group's revenue is denominated in Indian Rupee (INR). However, the group hedges its forex risk by taking forward cover as per the market scenario, which mitigates its risk to forex fluctuations to an extent.

Cyclicality associated with ship breaking industry coupled with competition of global peers: The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight rates in the global economy. These freight rates take into account the global demand of seaborne transport and supply of new vessels which in turn depends on global merchandise trade. Better availability of old ships for recycling is ensured at the time of recession and when freight rates are low which makes it economical to dismantle the ship rather than continue to operate it. Indian ship-recycling yard face intense competition from the neighbour countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and partial enforcement.

Exposure to Regulatory and environment hazard risk: The ship-breaking industry in the Alang-Sosiya belt of Gujarat is highly regulated with strict working and safety standards to be maintained by the ship-breakers for their labourers and environmental compliance. Furthermore, the industry is prone to risks related to pollution as it involves dismantling of ships which contain various hazardous substances like lead, asbestos, acids, hazardous paints, etc. that have to be properly disposed-off as per the regulatory guidelines.

Key rating strengths

Experienced promoters and established track record of operations: SAG promoted by Mr. Pritikar Arya along with his son Mr. Rajesh Arya and is engaged in ship breaking activity. Mr. Pritikar Arya has more than three decades of experienced and is actively involved in operation of group. Mr. Rajesh Arya, has more than two decades of experienced and is actively involved in operation of both companies. SAG had long track record of operations of over three decades and had recycled around 135 ships with capacity ranging from 600 metric tonnage (MT) to very large crude carriage (VLCC) of around 25,000 MT.

Class NK Certification: Both ship breaking yard of SAG (viz. SASPL and PRSBPL) possess certificates from Nippon Kaiji Kyokai i.e. Class NK, Japan, RINA S.P.A. for compliance of Hong Kong International Convention (HKC), which certifies the operations of the shipbreaking yards are in compliance with the environmental and worker safety guideline, including secure management of hazardous waste generated from the ship-breaking activities. These certifications give SAG an advantage to source ships at marginally better prices compared with market rates. The latest Class NK certificate for PRSBPL & SASPL is valid until June 07, 2027 and June 25, 2023 respectively.

Location of yard at Alang which has unique geographical features suitable for ship-breaking operations: The SAG's ship breaking yards are located at Alang-Sosiya belt, which constitutes nearly 90% of India's ship-breaking activities and it is India's largest ship-breaking cluster. The unique geographical features of the area include a high tidal range, wide continental shelf, adequate slope and a mud free coast. These conditions are ideal for a wide variety of ships to be beached easily during high tide. The cluster accommodates nearly 170 plots spread over around 10 km long stretch along the sea coast of Alang-Sosiya. Alang has been a consistent player in ship breaking and accounts for 98% of total ships recycled in India.

Liquidity – Stretched

SAG has stretched liquidity marked by low cash and cash equivalents (around Rs. 4.35 crore) and modest LC coverage ratio of 0.94 times as on March 31, 2022. The LC coverage was below unity mainly due to higher receivables as on balance sheet date along with higher purchase GST (to be set-off against sales) as ships were purchased in H2. LC coverage of PRSBPL on standalone basis stood at 1.19x as on March 31, 2022. The current ratio and the quick ratio stood at 0.89 times and 0.34 times as on March 31, 2022. SAG had nil repayment obligations during FY22 (A). Also, the average monthly fund-based utilization for the past twelve months stood low at 16% and was mainly utilized during Q4FY22 and Q2FY23 for payment of duties on ship purchase. LC utilization stood moderate at 63% for SASPL and 22% for PRSBPL.

Ship-breaking entities need to park their sale proceeds into fixed deposits (FDs) as per the schedule given by banks at the time of opening the LC for ship purchase, which are lien marked against the LC obligation towards purchase of the ship, in addition to the upfront margin kept for opening of the LC in favour of the supplier. This ensures gradual build-up of reserve funds to meet the sizeable LC payment obligations at maturity.

Analytical approach: Combined. For, arriving at the ratings of PRSBPL, CARE has considered combined financial and business profiles of PRSBPL and SASPL as these companies collectively referred as Shubh Arya Group (SAG), having common promoters, engaged in similar line of business and have fungible cash flow.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Consolidation](#)
[Short Term Instruments](#)
[Wholesale Trading](#)
[Policy on Withdrawal of Ratings](#)

About the Company

P Rajesh Ship Breaking Private Limited

P Rajesh Ship Breaking Private Limited Incorporated in 1986, PRSBPL (CIN: U35117MH1986PTC038705) is engaged in the ship recycling at Alang-Sosiya belt of Bhavnagar region in Gujarat. PRSBPL carry out ship-breaking activity at plot no. 84B with total plot size of 2115 sq. meters having frontage of 47 meters. The premises are leased out by Gujarat Maritime Board (GMB) and is compliant under "Green recycling - Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution MEPC.210 (63)" certified by Class NK.

Shubh Arya Steel Private Limited

Shubh Arya Steel Private Limited Incorporated in 1979 as partnership firm, SASPL (CIN: U35117MH1999PTC119169) is one of the oldest ship breaking entities in the ship-breaking industry at Alang-Sosiya belt of Bhavnagar region in Gujarat. SASPL is engaged in shipbreaking activity at plot no. 5 with total plot size of 4320 sq. meters having frontage of 90 meters. SASPL is carried out operations at premises leased out by Gujarat Maritime Board (GMB) and is compliant under "Green recycling – Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution MEPC.210 (63)" Class NK.

| Brief Financials (₹ crore) - Standalone | FY21 (A) | FY22 (A) | 8MFY23 (UA) |
|---|----------|----------|-------------|
| Total operating income | 0.74 | 4.15 | 40.82 |
| PBILDT | 0.35 | 0.67 | N.A. |
| PAT | 0.02 | 0.37 | N.A. |
| Overall gearing (times) | 0.01 | 3.08 | N.A. |
| Interest coverage (times) | 1.92 | 1.57 | N.A. |

| Brief Financials (₹ crore) - Combined | FY21 (A) | FY22 (A) | 8MFY23 (UA) |
|---------------------------------------|----------|----------|-------------|
| Total operating income | 90.07 | 108.62 | 103.45 |
| PBILDT | 3.45 | 6.58 | N.A. |
| PAT | 1.00 | 4.49 | N.A. |
| Overall gearing (times) | 1.62 | 4.23 | N.A. |
| Interest coverage (times) | 1.65 | 3.36 | N.A. |

A: Audited; UA: Unaudited; Prov. Provisional; N.A.- Not Available

Status of non-cooperation with previous CRA: Brickwork Ratings have reviewed the ratings assigned to the bank facilities of PRSBPL under Issuer Not Co-operating Category vide its press release dated May 31, 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Non-fund-based - LT/ST-BG/LC | | - | - | - | 100.00 | CARE BB-; Stable / CARE A4 |
| Non-fund-based - ST-Credit Exposure Limit | | - | - | - | 2.00 | CARE A4 |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|---|-----------------|------------------------------|----------------------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Working Capital Limits | LT | - | - | - | - | - | 1)Withdrawn (27-Mar-20) 2)CARE BB-; Stable (09-Jul-19) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST* | 100.00 | CARE BB-; Stable / CARE A4 | 1)CARE BB-; Stable / CARE A4 (28-Jul-22) | 1)CARE BB-; Stable / CARE A4 (07-Jul-21) | 1)CARE BB-; Stable / CARE A4 (03-Jul-20) | 1)CARE BB-; Stable / CARE A4 (27-Mar-20) 2)CARE A4 (09-Jul-19) |
| 3 | Non-fund-based - ST-Credit Exposure Limit | ST | 2.00 | CARE A4 | 1)CARE A4 (28-Jul-22) | 1)CARE A4 (07-Jul-21) | 1)CARE A4 (03-Jul-20) | 1)CARE A4 (27-Mar-20) 2)CARE A4 (09-Jul-19) |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---------|---|------------------|
| 1 | Non-fund-based - LT/ ST-BG/LC | Simple |
| 2 | Non-fund-based - ST-Credit Exposure Limit | Simple |

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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