Anupama Steel Limited

December 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	90.00	CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	**90.00 (₹ Ninety Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

For arriving at the ratings of Anupama Steel Limited (ASL), CARE Ratings Ltd. has considered the combined financial and business risk profile of four ship-breaking entities, namely, ASL, Mahavir InductO-Melt Private Limited (MIMPL; rated 'CARE BBB; Stable/ CARE A3'), Puneet Industries Private Limited (PIPL; rated 'CARE BBB; Stable/ CARE A3'), and M. K. Shipping and Allied Industries Private Limited (MKSAIPL; rated 'CARE BBB; Stable/ CARE A3') henceforth referred to as Mahavir Shipbreaking Group (MSG). All four entities are in the similar line of business, having common promoter and being operated under the common management.

The ratings assigned to the bank facilities of MSG continue to derive strength from the extensive experience of its promoters in the ship-breaking industry, its presence at the Alang-Sosiya region which is one of the largest ship-breaking yards of the world and various certification for the green recycling. The ratings continue to take into account MSG's moderate scale of operation and moderate profitability which improved during FY22 (refers to the period from the April 01 to March 31), moderate capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of exposure to the adverse movement in the steel prices and the forex rates, presence in the cyclical ship-breaking industry and exposure to the regulatory and the environmental hazard risk.

Rating sensitivities

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

- Substantial growth on scale of operation of MSG with interest coverage of more than five times on sustained basis.
- Improvement in the latter of credit (LC) coverage ratio of MSG beyond 1.50 times on a sustained basis

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Decline in the scale of operation of MSG below Rs.200 crore with profit before interest, lease, depreciation and tax (PBILDT) margin below 3% on sustained basis
- Deterioration in the LC coverage ratio of MSG below 1.15 time on a sustained basis.
- Any major diversion of funds to non-core business operation.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter group: MSG is managed by the Bansal family based out of Bhavnagar. The promoter, Mr. Kishorechand Bansal, has more than three decades of experience in the ship breaking industry and is also actively involved in the day to day operations of the group. He is well supported by his son, Mr. Moulik Bansal and other family members & relatives including Mr Puneet Bansal and Mr Shrenik Diwan. The ship recycling activity of MSG is carried out at the premises leased out by Gujarat Maritime Board (GMB) in the Alang-Sosiya belt of Gujarat. The group has recycled around 200 ships till September 30, 2022 with capacity ranging from 10,000 light deadweight tonnage (LDT) to very large crude carriers (VLCC) of around 24,000 LDT.

Location of the yard at Alang-sosiya region which has the unique geographical features which is suitable for the ship-breaking operations: MSG's ship-breaking yards are located at the Alang-Sosiya belt which is considered to be one of the world's largest ship-breaking yards and caters to nearly 90% of India's ship-breaking activity. The unique geographical features of the area, including a high tidal range, wide continental shelf, 15 degree slope and a mud free coast, are ideal for

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

even large sized ships to be beached easily during high tide. It accommodates nearly 170 plots spread over around 10 km long stretch along the sea coast of Alang. Out of four plots in group, it owns one of the five largest sized plots in the yard stretching 120 meters (V-5) in MIMPL. Multiple yards with different frontage provided flexibility in buying different types/size of ships for recycling.

IRS Class, NK Class and RINA certification: Various agencies including Indian Register of Shipping (IRS), NK and RINA certify the operations of the ship-breaking yards from the environmental and worker safety points of view, including secure management of hazardous waste generated from the ship-breaking activities. Some of these certifications are granted after an audit as per the guidelines laid down by the Hong Kong Convention of the International Maritime Organization (IMO) in 2009. Under MSG's, ASL has IRS and NK class certifications, MIMPL has IRS and RINA Class certifications while PIPL and MKSAIPL has IRS class certification. Certification like NK class gives ship recycler an advantage to source ships at marginally better prices compared with market rates. As articulated by management, MSG is also planning for the NK class certification in PIPL and MKSAIPL.

Moderate scale of operation and profitability which improved during FY22: Over the years, total operating income (TOI) of the MSG has remained volatile depending upon the availability of ship for cutting along with the volatility associated with steel scrap prices. However, group has maintained moderate scale of operations of around Rs.250-350 crore with selective buying of ships. TOI of MSG grew TOI grew moderately by around 8% form Rs.275.04 crore during FY21 to Rs.296.54 crore during FY22 mainly due to increase in the steel prices. PBILDT margin improved by 260 bps from 2.95% during FY21 to 5.54% during FY22 due to better spread with increase in the steel prices. However, with overall declining trend of steel prices, PBILDT margins is expected to moderate in near term. Also, currently, PIPL doesn't have any ships and as articulated by the management, the same will be purchase in the due course depending the on the better visibility on the steel prices. With growth at PBILDT level along with depreciation and interest and finance cost, profit after tax (PAT) margin also improved by 188 bps from 2.95% in FY21 to 5.54% in FY22. This further translated into significant growth in the gross cash accruals (GCA) from Rs.8.70 crore in FY21 to Rs.15.12 crore in FY22. During 5MFY23, MSG had reported TOI of Rs.129.77 crore with PBILIDT margin of 8.60%.
On standalone basis, ASL reported TOI of Rs.87.71 crore (FY21: Rs.62.88 crore) with PBILDT margin of 4.05% (FY21: 2.30%) and PAT margin of 2.04% (FY21:2.08%) during FY22. It reported GCA of Rs.2.09 crore during FY22 (FY21: Rs.1.56 crore). During 5MFY23, ASL had reported TOI of Rs.52.70 crore with PBILIDT margin of 2%.

Moderate capital structure and debt coverage indicators: Capital structure of MSG though remained moderate marked by an overall gearing of 1.36x as on March 31, 2022. With steady addition of the profit, tangible net-worth also grew and remained moderate at Rs.122.10 crore as on March 31, 2022. Apart from fund based working capital limits, MSG also utilizes the non-fund-based limits (primarily letter of credit) which requires margin to be kept in terms of fixed deposits. Adjusted overall gearing (total debt after netting off lien marked FD's free cash and bank balance improved from 0.34x as on March 31, 2021 to 0.23x as on March 31, 2022. Furthermore, there is continuous improvement in debt coverage indicators marked by PBILDT interest coverage ratio of 3.69x during FY22 (FY21: 2.26x) and TDGCA of 11.02x (FY21: 17.76x).
On standalone basis, the capital structure of the ASL stood moderate marked by overall gearing of 2.48x as on March 31, 2022 (0.71x times as on March 31, 2021). Debt coverage indicators too remained moderate marked by PBILDT interest coverage and total debt to GCA of 2.05x (FY21:2.46x) and 26.09x (FY21:9.20x) respectively during FY22.

Stable outlook for industry: The outlook for domestic shipbreaking industry is expected to be stable backed by increase in demand of steel primarily on account of drop-off in steel exports from China and the rise in infrastructure investment in India. Implementation of the Recycling of Ships Act, 2019, and joining the Hong Kong International Convention (HKC) have strengthened country's leadership position worldwide in ship breaking industry. Further, The Indian Finance Ministry announced that the shipbreaking capacity in Alang will be extended by FY24 to capture 50% of the global ship recycling business. However, with increased trade volumes during the post unlock period and upward freight rates supports profitability of sailing vessels, limiting availability of ships for dismantling in near term. With ship rates declining in H1FY23 and new ship additions, ship availability to increase going forward.

Key rating weaknesses

Exposure to adverse movement in steel prices and forex rates: Steel prices are volatile and are driven by the demand and supply conditions in the global as well as local markets exposes MSG to any adverse price movement on the uncut ship inventory (which depends on the time elapsed since the purchase of the ship and the size/tonnage of the ship) as well as unsold inventory of steel scrap held by the firm (which is generally minimal). Steel prices have shown an increasing trend during FY22 however, it had shown moderation during 5MFY23 period. The group LC facility to purchase old ships. Since the transactions are denominated in foreign currency, the firm is exposed to the foreign exchange fluctuation risk, as the group's revenue is denominated in Indian Rupee (INR) and its doesn't not fully hedges its forex exposure.

Presence in the cyclical and competitive industry: 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. The ship availability was adversely impacted in past1-2 year due to high freight prices. However, the recent moderation in the global freight charges augurs well for the ship-breaking industry. Furthermore, Indian ship-breaking industry faces intense competition from the neighboring countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and larger yards giving better bargaining power to yard owners.

Exposure to regulatory and environment hazard risk: The ship-breaking industry is highly regulated with strict working and safety standards to be maintained by the shipbreakers for their labourers and environmental compliance. Further, Government of India had also enacted the Recycling of Ships Act, 2019 ("Act"). The preamble of this Act mentions the regulation of recycling of ships by setting certain standards and laying down the statutory mechanism for the enforcement of such standards and related matters. Thus, if any adverse circumstances or event may affect business operations of entities.

Liquidity: Adequate

The group has adequate liquidity marked by moderate utilization of working capital limit, considerable amount of cash and cash equivalents and moderate LC coverage ratio. On a combined basis, the average fund-based working capital utilization for the past 12 months ended September 2022 stood low at around 31% while non-fund based working capital limit utilization was moderate at around 67% for the past 12 months ended September 2022. Cash flow from operation turned negative at (Rs.42.09) crore during FY22 as compared to positive at Rs.48.29 crore during FY21 due to higher inventory holding. As on March 31, 2022, group has current ratio of 1.03x where as quick ratio of 0.37x reflecting significant proportion of inventory in current assets.
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 favor of the supplier. This ensures gradual build-up of reserve funds to meet the sizeable LC payment obligations at maturity. MSG is continuously maintaining adequate LC coverage ratio above 1.10/1.15 times (considering 10%/15% LC margin) over the period. MSG had adequate LC coverage of 1.59x as on March 31, 2022 and 1.21x as on August 31, 2022. On Standalone basis, LC coverage of ASL stood at 1.10x as on March 31, 2022 and 2.65x as on August 31, 2022.

Analytical approach: Combined.

For arriving at the credit rating, CARE has combined the financial risk profile of ASL, MIPL, MKS and PIPL [together referred to as Mahavir Ship breaking Group (MSG)]. As all four entities are closely held companies by a common promoter family and having operation in the similar business i.e. ship breaking industry. Furthermore, there is also fungibility of the cash flows.

Applicable criteria

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

About the Group- MSG

MSG consists of four ship breaking entities ASL, MKS, MIPL and PIPL. The ship recycling facilities of all four entities are carried out at the premises leased out by GMB in Bhavnagar. The promoters of MSG have experience of more than three decades in the ship-breaking industry. The promoters are also engaged in manufacturing secondary steel products such as angles, channels and round bars through Mahavir Rolling Mill Private Limited (rated CARE BBB-; Stable/ CARE A3).

About the Company - ASL

ASL (CIN: L27310GJ1980PLC004096) was incorporated as a Private Limited Company in 1980 and was converted into Public Limited Company in 1986. During FY17, MSG acquired majority stake in the company. ASL is engaged in ship breaking activities at its facility located at Alang-Sosiya belt of Bhavnagar region in Gujarat having frontage of 83 meters.

Brief Financials (Rs. crore)- Combined	FY21 (UA)	FY22 (UA)	5MFY23 (Prov.) *
Total operating income	275.04	296.54	129.77
PBILDT	8.10	16.44	11.20
PAT	8.00	14.20	6.02
Overall gearing (times)	1.43	1.36	1.27
Interest coverage (times)	2.26	3.69	4.13

*UA: Un-Audited as financials are combined by the analytical team based on line by line addition and netting off intergroup transactions; Prov.: Provisional; *excluding inter-company transactions.*

Brief Financials (Rs. crore)- Standalone (ASL)	FY21 (A)	FY22 (A.)	5MFY23 (Prov.)
Total operating income	62.88	87.71	52.7
PBILDT	1.45	3.56	1.10
PAT	1.31	1.79	0.56
Overall gearing (times)	0.71	2.48	1.36
Interest coverage (times)	2.46	2.05	4.78

A: Audited; Prov. Provisional

Status of non-cooperation with previous CRA: Brickwork Ratings had reviewed ratings of ASL under "Issuer Not Co-operating" category vide its press release dated April 22, 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	90.00	CARE BBB; Stable / CARE A3

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/Non-fund-based-LT/ST	LT/ST*	90.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (03-Nov-21) 2)CARE BBB-; Stable / CARE A3 (24-Sep-21)	1)CARE BBB-; Stable / CARE A3 (05-Jan-21)	1)CARE BBB-; Stable / CARE A3 (27-Nov-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	**a.** Gradual built-up of margin to 100% (LC on isolation basis)
B. Non-financial covenants	**a.** Stake of promoters should not get diluted below 51% of controlling stake without prior permission of bank **b.** Period required for dismantling ship should not exceed 12 months
	-

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Akhil Goyal
Phone: 8511190015
E-mail: akhil.goyal@careedge.in

Relationship contact
Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in