

## Bharat Ship Breakers Corporation

March 16, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	115.00 (Enhanced from 73.70)	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus )	Reaffirmed
Short Term Bank Facilities	2.30 (Enhanced from 1.30)	CARE A4+ (A Four Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>117.30</b> <b>(Rs. One Hundred Seventeen Crore and Thirty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Bharat Ship Breakers Corporation (BSBC) continue to remain constrained on account of its modest scale of operations, thin profitability margins, susceptibility of operating profitability to adverse movement in steel scrap prices and foreign exchange rates, exposure to regulatory and environmental hazard risks and cyclical nature associated with the ship-breaking industry. The ratings are also constrained due to partnership nature of its constitution.

The ratings, however, continue to derive strength from the extensive experience of the partners in ship-breaking industry, presence of BSBC's ship-breaking yards at Alang which is India's largest ship-breaking cluster and NK class certifications regarding environmental and worker safety for its yards.

### Rating Sensitivities

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

- Growth in scale of operations along with improvement in PBILDT margin to more than 3% on a sustained basis
- Increase in net worth base leading to overall gearing (based on net debt) below 1.50x on a sustained basis during periods when ship breaking activity is being undertaken
- LC coverage ratio above 1.30x on a sustained basis

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

- Deterioration in LC coverage ratio below 1.15x on a sustained basis (considering the stipulation of 15% margin by the lender for LCs of BSBC)
- Operating loss leading to sizeable erosion of net-worth
- Extension of sizeable loans and advances to entities engaged in unrelated business activities

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Modest scale of operations and thin profitability margins

During FY21, BSBC's total operating income increased by 53% on y-o-y basis to Rs.63.23 crore with sales volume increased by 77% on y-o-y basis in FY21. However, sales realization in terms of price per/ MT, declined by 12% in FY21. BSBC's profitability has remained thin over the years on account of low value addition in the business, stiff competition in the industry and its exposure to volatility in steel prices and foreign currency exchange rates. BSBC's PBILDT margin increased from 1.01% in FY20 to 3.83% in FY21 on account of increase in spread. PAT margin also increased to 1.34% in FY21.

#### Susceptibility of operating profitability to adverse movement in steel scrap prices and foreign exchange rates

BSBC uses letter of credit (LC) facility for procurement of ships for breaking. Since the transactions are denominated in United States Dollars (USD), the firm is exposed to forex risk during the LC usance period, as the firm's revenue is denominated in Indian Rupee (INR), providing no natural hedge for the purchase of ships. Further, BSBC keeps its forex position unhedged on account of sizeable hedging cost vis-à-vis the profitability in ship breaking operations, which exposes it to a fair degree of forex risk. Moreover, the volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes BSBC to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap held by the firm.

#### Exposure to regulatory and environmental hazard risk

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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Cyclicality associated with ship breaking 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 there 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.

### Partnership nature of its constitution

BSBC, being a partnership concern, is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency along with risk of unlimited liability of the partners. Furthermore, partnership concern has restricted access to external borrowings, as the creditworthiness of partners remains the key factor affecting the credit decision for lenders.

### Key Rating Strengths

#### Experienced partners

The key partner of BSBC, Mr Nitin Kothari has over three decades of experience in the ship breaking industry. The other partners of BSBC also have long standing experience in the ship breaking industry.

#### Location of yard at Alang which has unique geographical features suitable for ship-breaking operations

The firm's ship breaking yard is located at 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 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.

#### NK class certification

Various agencies such as Nippon Kaiji Kyokai i.e. Class NK, RINA S.P.A., Class IR etc. certifies 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. These certifications are carried after an audit as per the guidelines laid down by the Hong Kong Convention of the International Maritime Organization (IMO) in 2009 under "Green recycling - Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution MEPC.210 (63)" under European Union regulations. This compliance is in relation to the infrastructure and better environment friendly practices and results in lower procurement cost of ships for group and a preference in ship recycling. BSBC has NK certification, which gives an edge in sourcing ships at a marginally better price as compared to market rate.

#### Liquidity: Adequate

BSBC's liquidity remained adequate with LC coverage of more than 1.15 times (1+ LC margin) and low term debt repayment obligations. However, utilization of working capital limits (LC limit) remained high at 86% in the trailing 12 months ended December 2021. It has one term loan of Rs.0.34 Crore against its modest cash accruals. Moreover, 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 (15% for BSBC as per latest sanction letter dated January 20, 2022) 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. BSBC had also increased its LC limit to Rs.115 crore to enable purchase of larger ships.

**Analytical Approach:** Standalone

#### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Rating Methodology - Wholesale Trading](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### About the Company

Bharat Ship Breakers Corporation (BSBC) was incorporated in 1985 as a partnership firm. BSBC is engaged in ship-breaking activity at a plot having size of 2,790 square meters in the Alang-Sosiya belt of Bhavnagar region in Gujarat. The firm is currently managed by Mr. Nitin Kothari, Mr. Mukesh Kothari and Mr. Mehul Kothari. The partners have experience of more than three decades in the ship-breaking industry.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	41.18	63.23	83.12
PBILDT	0.41	2.42	3.40
PAT	0.06	0.85	2.02
Overall gearing (times)	0.00	1.40	3.80
PBILDT Interest coverage (times)	2.09	2.58	NA

A: Audited, UA: Unaudited; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	115.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.30	CARE A4+

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (25-Mar-20)	1)CARE BB+; Stable (27-Mar-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	115.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (31-Mar-21)	1)CARE BB+; Stable / CARE A4+ (25-Mar-20)	1)CARE A4+ (27-Mar-19)
3	Non-fund-based - ST-Credit Exposure Limit	ST	2.30	CARE A4+	-	1)CARE A4+ (31-Mar-21)	1)CARE A4+ (25-Mar-20)	1)CARE A4+ (27-Mar-19)

\* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
Equity Infusion	Equity Infusion of Rs. 8.58 crore before disbursement of enhanced facility

#### 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
2	Non-fund-based - ST-Credit Exposure Limit	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 instrument:** CARE Ratings Ltd. 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: Mr. Mradul Mishra  
Contact no.: +91-22-6837 4424  
Email ID: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact

Name: Mr. Akhil Goyal  
Contact no.: +91-85111 90015  
Email ID: [akhil.goyal@careedge.in](mailto:akhil.goyal@careedge.in)

### Relationship Contact

Name: Mr. Deepak Prajapati  
Contact no.: +91-79-4026 5656  
Email ID: [deepak.prajapati@careedge.in](mailto:deepak.prajapati@careedge.in)

### About CARE Ratings:

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