Priya Blue Industries Private Limited

March 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	277.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	Revised from CARE BBB-; Stable / CARE A3 and moved to ISSUER NOT COOPERATING category

Details of facilities in Annexure -1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Priya Blue Industries Private Limited (PBIPL) to monitor the ratings vide e-mail communications dated November 20, 2023, February 29, 2024 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, PBIPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on PBIPL's bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of deterioration in scale of operations in FY23 (FY refers to the period from April 01 to March 31) as well as 8MFY24 along with non-availability of requisite information. The ratings, further, continue to remain constrained on account of PBIPL's moderate profitability, leveraged capital structure, moderate debt coverage indicators, exposure to adverse movement in steel prices and forex rates, cyclicality in the ship breaking industry and exposure to regulatory and environmental hazards risk.

The ratings, however, continue to derive strength from PBIPL' experienced and resourceful promoters, established position in the ship-breaking industry aided by one of the largest ship-breaking facilities in the country having various certification for Green Recycling and location of yard at Alang which has unique geographical features suitable for ship-breaking operations.

Analytical approach: Consolidated

CARE has considered consolidated financials of PBIPL and its subsidiaries i.e. Priyablue Ship Green Recycling Private Limited (PSGRPL), Priya Offshore Private Limited (POPL) and Priya Blue Holding Private Limited (PBHPL). The details of subsidiaries consolidated with PBIPL are shown in Annexure-6

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that PBIPL shall continue to benefit from long track record of operations of the group in ship recycling industry.

Detailed description of the key rating drivers

At the time of last rating on February 07, 2023, the following were the rating strengths and weaknesses (updated for the information available from the client)

Key Weaknesses

Significant decline in scale of operation and moderate profitability

PBIPL's consolidated total operating income (TOI) has remained fluctuating depending upon the availability of ship for recycling on global scale along with the volatility associated with steel prices. TOI of the company on consolidated level moderated by ~27% Y-o-Y to Rs.509.69 crore [PY: Rs.696.42 crore] in FY23 owing to limited availability of ships to cut. In 8MFY24 (Unaudited), PBIPL's TOI further declined significantly over 9MFY23 (Unaudited) and remained at Rs.251.53 crore.

PBILDT margin of PBIPL (Consolidated) also remained moderate due to low value additive nature of business coupled with impact of volatile steel prices and forex rates. During FY23, operating profitability of the company remained relatively stable over the previous year as marked by PBILDT margin of 4.94% in FY23 [PY: 4.85%]. Consequently, PAT margin of the company also remained relatively stable at 4.66% in FY23 [PY: 5.60%].

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.
*Issuer did not cooperate; Based on best available information

Leveraged capital structure and moderate debt coverage indicators

On consolidated basis, capital structure of PBIPL marked by its overall gearing improved over the previous year on the back of lower Letter of Credit (LC) backed acceptance, however, remained leveraged at 2.30 times as on March 31, 2023 [PY: 3.68 times]. TOL/TNW of the company decreased from 8.34 times as on March 31, 2022 to 4.06 times as on March 31, 2023 with decreased LC backed acceptance as well as group company creditors.

Debt coverage indicators of the group remained relatively stable over the previous year at moderate level as marked by interest coverage ratio of 1.93 times [PY: 2.18 times] and total debt / GCA of 10.04 times [PY: 7.94 times] in FY23.

Exposure to adverse movement in steel prices and forex rates

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes PBIPL 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 company (which is generally minimal). The group uses LC facility to purchase old ships. Since the transactions are denominated in foreign currency, the company 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.

Cyclical and competitive industry

The ship recycling 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 consider 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. Furthermore, Indian ship-recycling yard face intense competition from the neighboring countries like Bangladesh and Pakistan due to availability of low wage labor, 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-recycling industry is highly regulated with strict working and safety standards to be maintained by the players for laborers and environmental compliance. Furthermore, last year Government of India enacted the Recycling of Ships Act, 2019 ("Act"). The preamble of this Act mentions that it is an Act to provide 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, any adverse circumstances or event may affect business operations of entities operating in this segment.

Key Strengths

Experienced and resourceful promoters

The key promoter of PBIPL, Mr. Sanjay Mehta, has been associated with the ship recycling industry since 1992 and has long standing experience of over two decades in the industry.

Established position of the company in the ship-breaking industry aided by one of the largest ship-breaking facilities in the country having various certification for Green Recycling

PBIPL had recycled more than 69 ships which includes 7 Ultra Large crude carriages (ULCC), 5 very large crude carriages (VLCC) and 4 Floating production storage and offloading (FPSOS) including longest passenger vessel 'S.S. Blue Lady, ex SS France, ex SS, the largest crude oil tanker, 'ST MONT, ex Jahre Viking, ex Knock Nevis' having a LDT of 83,598 MT. PBIPL carry out ship-breaking activity at plot V-1 with front yard having frontage of 121 meters leased out by Gujarat Maritime Board (GMB). It also has backyard with area of 65,000 sq. meters out of which 27,500 sq. meters of area is concrete where the large steel blocks of the vessels are received from the front yard and then recycled into smaller sizes, assorted and delivered to steel recycling mills. PBIPL has Class NK, RINA S.P.A., Class IR certification, which gives an edge in sourcing ships at a marginally better price as compared to market rate.

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

The group'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. It accommodates nearly 170 plots spread over around 10 km long stretch along the sea coast of Alang.

Liquidity: Adequate

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. On standalone basis, the average utilization of non-fund-based limit remains at 62% p.a. [PY: 58%] for past eight months ended November 2023 for PBIPL. On standalone basis PBIPL's overall liquidity, indicated by its ability to honor LC obligations as marked by LC coverage ratio increased marginally to 1.07 times as on March 31, 2023 [PY: 1.00 times] while it further improved to 1.34 times as on November 30, 2023 (Provisional). Adjusted LC coverage factoring in receivables stood at 1.10 times as on March 31, 2023 [PY: 1.08 times]. PBIPL has LC margin of 10% and adequate sanction facilities available to manage operations.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy in respect of non-cooperation by issuers
Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Incorporated in 1994, Priya Blue Industries Private Limited (PBIPL; CIN - U24199GJ1994PTC021784), promoted by Mr. Sanjay Mehta and his family members, is engaged in ship-breaking activity at Alang–Sosiya belt of Bhavnagar region in Gujarat.

Brief Financials (Rs. crore)	Standalone			Consolidated		
	FY22 (A)	FY23 (A)	8MFY24 (UA)	FY22 (A)	FY23 (A)	8MFY24 (UA)
Total operating income	442.17	364.65	152.32	696.42	509.69	251.53
PBILDT	29.56	22.25	19.72	33.79	25.16	NA
PAT	35.75	21.20	NA	38.97	23.74	NA
Overall gearing (times)	5.76	2.53	NA	3.68	2.30	NA
Interest coverage (times)	2.08	1.92	70.43	2.18	1.93	NA

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

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

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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-Letter of credit	-	-	-	-	277.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (07-Feb-23)	1)CARE BBB; Stable (23-Feb-22)	1)CARE BBB-; Stable (03-Mar-21) 2)CARE BBB-; Negative (31-Jul-20)
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	277.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable / CARE A3 (07-Feb-23)	1)CARE A3+ (23-Feb-22)	1)CARE A3 (03-Mar-21) 2)CARE A3 (31-Jul-20)

LT/ST: Long term/Short term

*Issuer did not cooperate; based on best available information.

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

Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries getting consolidated

Sr. No.	Name of Company	% of Holding as on March 31, 2023	Extent of Consolidation	Rationale for Consolidation
1.	Priyablue Ship Green Recycling Private Limited (PSGRPL)	97.00%	Full	Subsidiary
2.	Priya Blue Holding Private Limited (PBHPL)	99.90%	Full	Subsidiary
3.	Priya Offshore Private Limited (POPL)	74.00%	Full	Subsidiary

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

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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.

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