

Priyablue Recycling LLP

March 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	175.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	Rating 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 Priyablue Recycling LLP (PRL) to monitor the ratings vide e-mail communications dated November 20, 2023, February 28, 2024 among others and numerous phone calls. However, despite our repeated requests, the firm 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, PRL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on PRL'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 take into account of PRL's moderate scale of operation and profitability which deteriorated in FY23 (FY refers to the period from April 01 to March 31) as well as susceptibility of the firms' 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-recycling industry. The ratings are also constrained due to partnership nature of its constitution.

The ratings, however, favourably take into account its experienced and resourceful promoters, established position of the Priyablue group in the ship- recycling industry, NK class certification regarding environmental and worker safety and location of yard at Alang which has unique geographical features suitable for ship-recycling operations. The ratings also factors in its comfortable solvency position.

Analytical approach: Standalone along-with factoring its strong operational and managerial linkages with Priya Blue Industries Private Limited (PBIPL).

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that PRL 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 April 21, 2023 the following were the rating strengths and weaknesses (updated for the information available from the client)

Key Weaknesses

Moderate scale of operation with decline in profitability during FY23

PRL's scale of operations as marked by its total operating income (TOI) increased significantly with availability of couple of large ships for breaking from its group company on credit, however, it continued to remain moderate at Rs.174.61 crore in FY23 as against Rs.141.42 crore in FY22. However in 8MFY24 (Provisional), PRL's TOI moderated to Rs.89.59 crore [9MFY23 (Provisional): Rs.124.26 crore] owing to limited availability of ships in FY24.

PRL's profitability has remained fluctuating and moderate due to low value additive nature of business apart from impact of volatile steel prices and forex rates. During FY23, operating profitability of the firm as marked by its PBILDT margin decreased significantly from 24.57% in FY22 to 0.14% in FY23 owing to significant decrease in spread during the year. Subsequently, PAT margin of the firm also decreased significantly from 15.87% in FY22 to 1.62% in FY23, However, it was higher than PBILDT margin due to non-operating income of Rs.6.14 crore in form of interest income on bank FDs. In 8MFY24 (Provisional), PBILDT margin of the firm improved to 3.25%.

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

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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 PRL 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.

Partnership nature of its constitution

PRL, being a limited liability partnership concern, is exposed to inherent risk of withdrawal of capital by partners. Furthermore, partnership concern has restricted access to external borrowings.

Key Strengths**Experienced and resourceful promoters with benefits derived from company being a part of Priyablue group having established presence in ship recycling industry**

The key promoter of PRL, 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. The promoters have supported the group operations by timely infusion of unsecured loans and preference shares on need basis. PRL is a part of Priyablue group with PBIPL being the flagship company having track record of over two and a half decades which had recycled more than 69 ships including 7 Ultra Large crude carriages (ULCC), 5 very large crude carriages (VLCC) and 4 Floating production storage and offloading (FPSOS). On consolidated basis, PBIPL has registered TOI of Rs.509.69 crore with PBILDT margin of 4.94% in FY23 while tangible net worth of the company remained at Rs.113.62 crore as on March 31, 2023.

NK class certified yard

PRL carry out ship-breaking activity at plot 169-M with frontage of 45 meters leased out by Gujarat Maritime Board (GMB). Other group companies namely PBIPL and Priyablue Ship Green Recycling Private Limited (PSGRPL) carry out their ship-breaking activity at plot V-1 and V-2 respectively with frontage of 121 meters which are two of the largest plots at Alang used for ship recycling activity.

PRL has Class NK certification as well as group companies also have certification i.e. PBIPL (Class NK, RINA S.P.A. and Class IR certifications) and PSGRPL (Class NK 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 which 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.

Comfortable capital structure, though deteriorated debt coverage indicators

Capital structure of the firm remained comfortable with overall gearing of 0.81 times as on March 31, 2023 due to lower outstanding debt which mainly comprised of unsecured loans from promoters. However, TOL/TNW continued to remain high [due to high group company creditors] at 4.90 times as on March 31, 2023 which is in line with the previous year. Net worth base of the firm remained modest at Rs.27.39 crore as on March 31, 2023.

The debt coverage indicators of PRL deteriorated over the previous year owing to decline in profitability and remained modest with below unity interest coverage ratio [PY:37.75 times] and total debt to grss cash accruals (TDGCA) of 7.04 times [PY: nil] in FY23. In 8MFY24, PRL's interest coverage ratio improved to 3.13 times with improvement in profitability.

Liquidity: Adequate

The liquidity position of PRL was adequate considering the linkage with PBIPL (Consolidated) as well as PRL's moderate cash profit against no long term debt obligations coupled with moderate level of unencumbered cash and bank balance and nil utilization of fund based working capital borrowings.

PRL's GCA remained at Rs.3.13 crore in FY23 as against nil long term debt repayment obligation for FY24. Cash flow from operations (CFO) of the firm decreased significantly from positive Rs.110.88 crore in FY22 to negative Rs.132.56 crore owing to significant decrease in operating profit in FY23 coupled with significant increase in uncut ship inventory as on March 31, 2023. Unencumbered cash and bank balance remained moderate at Rs.11.20 crore as on March 31, 2023 as against Rs.95.26 crore as on March 31, 2022 as the company utilized funds towards working capital requirement. Current ratio remained at moderate 1.42 times as on March 31, 2023 as against Rs.1.19 times as on March 31, 2022 due to significant increase in inventory level. Operating cycle continued to remain negative at 79 days [PY: negative 172 days] due to higher creditors days.

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](#)

[Factoring Linkages Parent Sub JV Group](#)

[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

Established in 2009 as Bhuval Industries (BI), Priyablue Recycling LLP (PRL; LLP PIN: AAY-2632) converted into limited liability partnership (LLP) with its current name on July 08, 2022 and it is 97% held by PBIPL and rest by Mr. Sanjay Mehta. The firm is engaged in ship-breaking activity at Alang–Sosiya belt of Bhavnagar region in Gujarat. PRL carry out ship-breaking activity at plot 169-M with frontage of 45 meters leased out by Gujarat Maritime Board (GMB). PRL's plot is certified by Class NK.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	8MFY24 (UA)
Total operating income	141.42	174.61	89.59
PBILDT	35.72	0.25	2.91
PAT	22.44	2.83	NA
Overall gearing (times)	0.00	0.81	NA
Interest coverage (times)	37.75	0.19	3.13

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	-	-	-	-	175.00	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 (21-Apr-23)	-	-	-
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	175.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	1)CARE BB+; Stable / CARE A4+ (21-Apr-23)	-	-	-

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](#)

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.

Contact us

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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.

Disclaimer:

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