Ghaziabad Ship Breakers Private Limited

August 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	141.00	CARE BB+; Stable / CARE A4+	Assigned
Short Term Bank Facilities	2.46	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Ghaziabad Ship Breakers Private Limited (GSBPL), CARE Ratings Limited (CARE Ratings) has considered the combined business and financial profiles of five entities viz. GSBPL, JR Ispat Private Limited (JRIPL), JR Castings (JRC), JR Steel Industries (JRSI) and JR Industries (JRI), together referred to as JR Group (JR). Combined analytical approach is due to all the five entities operate in the related line of business and are jointly managed by a common set of promoters.
The ratings assigned to the bank facilities of GSBPL remains constrained due to group's thin profitability, moderately leveraged capital structure and moderate debt coverage indicators. The ratings also consider exposure to adverse movement in steel prices and forex rates, cyclicality associated with ship recycling industry coupled with competition of global peers and exposure to regulatory and environment hazard risk.
However, the ratings, derive strength from more than three decades of promoter's experience in the steel industry, moderate scale of operations albeit remained fluctuating, adequate liquidity, location of yard at Alang which has unique geographical features suitable for ship-recycling operations and NK class certification.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining scale of operations above Rs.200 crore with improving PBILDT margin of more than 4% on sustained basis.
- Improvement in interest coverage above 2.5x on sustained basis.
- Improving LC coverage ratio above 1.50x.

Negative factors

- Decrease in TOI below Rs.100 crore or operating margins below 2% on a sustained basis.
- Decline in LC coverage ratio below 1.15x on sustained basis.

Analytical approach: Combined
For arriving at the ratings of GSBPL, CARE Ratings has combined the business and financial risk profiles of GSBPL, JRIPL, JRC, JRSI and JRI as all the five entities operate in the related line of business, are jointly managed by a common set of promoters and exhibits cashflow fungibility.

Outlook: Stable
The 'Stable' outlook reflects CARE Ratings' expectations that the group shall continue to benefit from the extensive experience of its promoters, presence in vertically integrated businesses along with location advantage available to GSBPL.

Detailed description of the key rating drivers:

Key weaknesses
Thin profitability

JR group's profitability remains thin marked by PBILDT margin in the range of 2.50-3.10% over the past five years ended FY24 (Provisional, FY refers to period April 01 to March 31). It reported PBILDT margin at 2.6% in FY24 and 2.76% in FY23. Consequently, PAT margins also remained at 0.86% in FY24 (FY23: 0.92%). Profitability has remained thin over the years on account of low value addition nature of business, stiff competition in the industry and exposure to volatility in steel prices and foreign currency exchange rates. GSBPL's PBILDT margin remains at 1.86% in FY24 as against 6.39% in FY23. In FY23, PBILDT margin remained high mainly owing to inventory gain during H1FY23.

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

Moderately leveraged capital structure and moderate debt coverage indicators
JR's Capital structure marked by overall gearing remained moderately leveraged over last 5 years, further, it remained at 1.9x as on March 31, 2024, vis-à-vis 1.27x as on March 31, 2023. Increase in overall gearing is on account of higher LC backed creditors as on March 31, 2024. JR's total debt is primarily comprised of outstanding LC obligations against the purchase of ship along with some utilization of fund based working capital limit and unsecured loans. JR's capital structure remains moderately leveraged when there is purchase of a large size ship and associated sizable outstanding LC near balance sheet date and vice versa. Moreover, debt coverage indicator remained moderate marked by interest coverage ratio of 1.32x in FY24 and 1.49x 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 JR 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 group (which is generally minimal). The group uses LC facility to purchase old ships. Since the transactions are denominated in foreign currency, the group is exposed to forex risk during the LC Usance period, as the group's revenue is denominated in Indian Rupee (INR). However, the group partially hedges its forex exposure as per market situation which mitigates the risk to certain 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. Better availability of old ships for recycling is ensured at the time of recession and when freight rates are low. This makes it economical to dismantle the ship rather than continue to operate it. However, currently, ship availability is adversely impacted due to high freight prices. Furthermore, Indian ship-recycling yard faces intense competition from the neighbouring 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 recycling industry in the Alang-Sosiya belt of Gujarat is highly regulated with strict working and safety standards to be maintained by the shipbreakers for their labourers and environmental compliance. Furthermore, the industry is prone to the risks related to pollution as it involves dismantling of ships which contain various hazardous substances like lead, asbestos, acids, hazardous paints, etc., that must be properly disposed-off as per the regulatory guidelines. However, GSBPL has obtained necessary certifications.

Key strengths

Experienced promoters
Promoted by Tarsemal Gupta and currently managed by second and third generation, JR Group has more than three decades of experience in the ship recycling and iron and steel industry. The promoters are supported by tire II staff. GSBPL has experience of recycling various kind of ships including carriers, oil tankers, LNG carriers, etc.

Moderate scale of operations albeit remained fluctuating
Scale of operations of JR marked by Total operating income (TOI) remained ~Rs.200 crore over last four years except Rs.275 crore in FY22. TOI remained at Rs.208.36 crore in FY24 as against Rs.180.76 crore in FY23. Revenue from ship recycling activity of GSBPL remained fluctuating depending upon the availability of ship for cutting along with the volatility associated with steel scrap prices. It trades on opportunity basis. FY23 was the worst year for ship recyclers since 2008 where ships of only 1.09 million LDT were dismantled as against total capacity of 4.5 million LDT at Alang. GSBPL's TOI improved from Rs.20.73 crore in FY23 to Rs.90.60 crore in FY24 owing to higher ship recycling activity during the year. In FY23, revenue from ship recycling activity remained lowest mainly owing to increased freight cost limiting availability of ships for dismantling and volatility in steel prices coupled with increased competition from neighbouring countries.

Location of yard at Alang which has unique geographical features suitable for ship-recycling operations
GSBPL's ship-recycling yards is located at Alang-Sosiya belt which is one of the world's largest ship-recycling yards and caters to nearly 90% of India's ship-recycling 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 seacoast of Alang.

NK class certification
GSBPL's yard is NK class certified (valid till October 2026). Various agencies including NK and RINA certify the operations of the ship-recycling yards from the environmental and worker safety points of view, including secure management of hazardous waste generated from the ship-recycling activities. Certification like NK class gives ship recycler an advantage to source ships at marginally better prices compared with market rates.

Liquidity: Adequate

JR's liquidity remained adequate marked by moderate working capital utilization, adequate LC coverage ratio, moderate free cash and cash equivalents and moderate operating cycle. The month end combined fund-based and non-fund based working capital utilization for the past twelve months ended April 2024 remained moderate at around 40%. Cash flow from operation also remained at Rs.12.97 crore during FY24. However, liquidity ratio remained low marked by current ratio of 1.07x and quick ratio of 0.34x as on March 31, 2024. Apart from free cash and bank balance of Rs.4.85 crore, it has fixed deposits (including margin money) of Rs.29.33 crore as on March 31, 2024. Operating cycle of the group stood at 53 days during FY24 (P.Y.: 23 days). LC coverage ratio stood at 1.21x as on June 30, 2024 and 1.18x as on March 31, 2024.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

GSBPL was incorporated in 1986 and later was acquired by Gupta family in 1996. GSBPL is engaged in ship recycling activity at Alang- Sosiya belt of Bhavnagar region which is the leading centre for ship breaking and recycling in Asia. GSBPL is a part of JR Group which has an established presence in Iron & Steel Sector having a track record of over 3 decades. JR Group, over the years, has diversified its operations across various manufacturing divisions like general engineering casting, heavy & special engineering casting, alloy steel & precision casting, and ship recycling. Additionally, they have also ventured into the structure re-rolling mill, MS ingot furnace, and the trading of different types of metal scrap and machinery. Collectively, group have an annual production capacity of 1,80,000 MT.

	Combined (JR)		Standalone (GSBPL)	
Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	180.76	208.36	20.73	90.60
PBILDT	4.98	5.41	1.32	1.68
PAT	1.67	1.79	0.54	0.64
Overall gearing (times)	1.27	1.90	1.07	2.75
Interest coverage (times)	1.49	1.32	1.91	1.31

A: Audited, UA: Unaudited since financials are combined by CARE Ratings, P: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL has continued the rating assigned to the bank facilities of GSBPL into Issuer Not Cooperating category vide press release dated March 28, 2024, on account of non-payment of surveillance dues. Brickwork has continued the rating assigned to the bank facilities of GSBPL into Issuer Not Cooperating category vide press release dated January 12, 2024, on account of its inability to carry out a review in the absence of the requisite information from the company.

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: Annexure-4

Lender details: Annexure-5

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
Fund-based/Non-fund-based-LT/ST		-	-	-	18.00	CARE BB+; Stable / CARE A4+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	123.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	2.46	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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	18.00	CARE BB+; Stable / CARE A4+				
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	123.00	CARE BB+; Stable / CARE A4+				
3	Non-fund-based - ST-Credit Exposure Limit	ST	2.46	CARE A4+				

ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - ST-Credit Exposure Limit	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 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 Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	**Analytical Contacts** Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in Sajni Shah Assistant Director **CARE Ratings Limited** Phone: 079-40265636 E-mail: Sajni.Shah@careedge.in Karan Mehta Analyst **CARE Ratings Limited** E-mail: Karan.mehta@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