Anupama Steel Limited

September 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	125.00	CARE BBB; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Anupama Steel Limited (ASL), CARE Ratings Limited (CARE Ratings) has considered the combined financial and business risk profile of ASL, Mahavir InductO-Melt Private Limited (MIMPL; rated 'CARE BBB; Stable/ CARE A3'), Puneet Industries Private Limited (PIPL; rated 'CARE BBB; Stable/ CARE A3'), M. K. Shipping and Allied Industries Private Limited (MKSAIPL; rated 'CARE BBB; Stable/ CARE A3') and Mahavir Rolling Mill LLP (MRML; rated 'CARE BBB-; Stable/ CARE A3'); henceforth referred to as Mahavir Group (MG). All the five entities operate in the similar line of business and owned and operated by a common promoter.

The ratings assigned to the bank facilities of MG continue to derive strength from the extensive experience of its promoters in the ship-recycling industry, its presence at the Alang-Sosiya region which is one of the largest ship-recycling yards of the world and various certification for the green recycling. The ratings continue to take into account its moderate scale of operations and profitability, moderate capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of exposure to the volatile raw material and forex rates, presence in the cyclical ship-recycling industry and exposure to the regulatory and the environmental hazard risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial growth in scale of operations of MG with interest coverage of more than 5 times on sustained basis.
- Improvement in letter of credit (LC) coverage ratio of MG beyond 1.50 times on a sustained basis.

Negative factors

- Decline in the scale of operation of MG below ₹200 crore with profit before interest, lease, depreciation and tax (PBILDT) margin below 2.5% on a sustained basis.
- Deterioration in LC coverage ratio of MG below 1.15 times on a sustained basis.
- Any major diversion of funds to non-core business operations.

Analytical approach: Combined

For arriving at the credit rating, CARE Ratings has combined the operational and financial risk profile of ASL, MIMPL, MKSAIPL, PIPL and MRML [together referred to as Mahavir Group (MG)]. All the five entities operate in the similar line of business and owned and operated by a common promoter and has cash flow fungibility.

Outlook: Stable

The outlook on the long-term rating of ASL is "Stable" as the entity derives benefit from the extensive experience of the promoters in the industry along with its location advantage with presence in the Alang-Sosiya region.

Detailed description of the key rating drivers

Key strengths

Favourable location of the ship-recycling yards

MG's ship-recycling yards are located at the 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, adequate 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. Out of four plots in the group, it owns one of the five largest-sized plots in the yard having 120 meters (V-5) frontage in MIMPL suitable for recycling larger ships. Multiple yards with different frontage provided flexibility in buying different types/size of ships for recycling.

Under MG, ASL has IRS and NK class certifications, MIMPL has IRS and RINA Class certifications while PIPL and MKSAIPL has IRS class certification.

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

Moderate scale of operations and profitability
Over the years, total operating income (TOI) of MG has remained volatile depending upon the availability of ship for recycling along with the volatility associated with steel prices. TOI of MG moderated by around 13% on a y-o-y basis to ₹453.59 crore in FY24 due to decline in ships availability for recycling as well as moderation in the sales realisation of steel. MG is also engaged in the trading activity which is largely carried out under ASL.
Profitability of MG remained moderate marked by PBILDT margin of 2.85% during FY24 as compared with 5.14% during FY23. Moderation in the PBILDT margin in FY24 over FY23 level was on account of declining trend of steel prices and operating loss incurred in the rolling mill business (under MRML). This along with moderate depreciation and interest cost impacted the profit after tax (PAT) margin which moderated from 2% during FY23 to 1.42% during FY24. Consequently, GCA to decline albeit remained moderate at ₹7.52 crore during FY24 (FY23: ₹11.71 crore). In the near term with lower ship availability and decline trend of steel prices impacting ship purchases, CARE Ratings expects TOI to decline in the near term on the group level.
On standalone basis, ASL has stable performance and had reported TOI of ₹213.32 crore (FY23: ₹ 110.83 crore). Growth in TOI was on account of increase in trading activity during FY24. PBILDT margin remained moderate at 5.32% in FY24 (FY23: 10.78%). It reported GCA of ₹1.44 crore during FY24 (FY23: ₹2.30 crore).

Moderate capital structure and debt coverage indicators
MG has a moderately leveraged capital structure marked by an overall gearing of 0.95x as on March 31, 2024, which had improved as compared to 2.33x as on March 31, 2023, due to decline in working capital borrowings. MG maintains liquidity in terms of free cash and fixed deposit, adjusted for which, its overall gearing (total debt after netting off lien marked FDs, the free cash and bank balance) remained moderate at 0.34x as on March 31, 2024 (0.67x as on March 31, 2023). MG has moderate tangible net-worth of ₹167.46 crore as on March 31, 2024.
Debt coverage indicators of MG remained moderate marked by total debt to gross cash accruals (TDGCA) and PBILDT interest coverage ratio of 21.08x and 0.89x respectively during FY24 as compared to 32.93x and 1.30x respectively during FY23.
On standalone basis, the capital structure of ASL stood moderate marked by overall gearing of 5.38x (6.06x as on March 31, 2023) and adjusted overall gearing of 5.12x (5.43x as on March 31, 2023) as on March 31, 2024. Debt coverage indicators too remained moderate marked by PBILDT interest coverage and total debt to GCA of 1.13x (FY23: 1.36x) and 93.30x (FY23: 63.21x) respectively during FY24.

Experienced promoter group
MG is managed by the Bansal family based out of Bhavnagar, Gujarat. The promoter, Kishorechand Bansal, has more than three decades of experience in the ship recycling industry and is also actively involved in the day-to-day operations of the group. He is well supported by his son, Moulik Bansal and other family members and relatives including Puneet Diwanji and Shrenik Diwanji. The ship recycling activity of MG is carried out at the premises leased out by Gujarat Maritime Board (GMB) in the Alang-Sosiya belt of Gujarat. The group has recycled more than 200 ships as on March 31, 2024 with capacity ranging from 10,000 light deadweight tonnage (LDT) to very large crude carriers (VLCC) of around 24,000 LDT.

Stable outlook for the industry
The outlook for the domestic ship-recycling industry in the long run remains stable backed by steadily growing demand of the steel and steel products with growing domestic consumption. National Steel Policy of the Government envisages the development of a technologically advanced and globally competitive steel industry that promotes self-sufficiency in steel production. It aims to achieve crude steel production capacity of 300 million tonnes (MT) by FY30-FY31 and the secondary steel sector in India will play a crucial role in the same as it fulfils the domestic steel demand by 1-2%.

Key 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 domestic markets which exposes the operations of ship recyclers like MG 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. The group utilizes the LC facility to purchase old ships and since the transactions are denominated in foreign currency, the group is also exposed to the foreign exchange fluctuation 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. Additionally, MG operates rolling mill under MRML wherein it manufactures secondary steel products such as angles, channels and round bars. MRML procures part of its raw material requirement from its associates (ship-recycling entities), thus partially hedging group's operation against the volatility associated with the steel prices.

Presence in the 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 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 past year due to high freight prices. However, the recent moderation in the global freight charges augurs well for the industry. Furthermore, Indian ship-recyclers faces intense competition from the neighbouring countries like Bangladesh and Pakistan.

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 ship recyclers for their labourers and environmental compliance. Furthermore, the industry is prone to risks related to pollution as it involves dismantling of ships which contain various hazardous substances like lead, asbestos, acids, hazardous paints, etc. that have to be properly disposed -off as per the regulatory guidelines. Furthermore, 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, complying to the regulatory guidelines and safety standards are crucial for operations of ship recyclers.

Liquidity: Adequate
MG has adequate liquidity marked by moderate utilization of working capital limit, considerable amount of liquidity in terms of free cash and bank balance and fixed deposit and moderate LC coverage ratio. For ASL, the average fund-based and non-fund based working capital utilization together stood low at around 44% for the past 12 months ended June 2024.
Cash flow from operations (CFO) stood at ₹42.29 crore during FY24 as compared to negative CFO of ₹105.16 crore during FY23. Ship-recycling 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. MG is continuously maintaining adequate LC coverage ratio. LC coverage was at 2.03x as on March 31, 2024, and 1.56x as on June 30, 2024.
On Standalone basis, LC coverage of ASL stood at 1.21x as on March 31, 2024 and 1.15x as on June 30, 2024.
The group has free cash and bank balance of ₹94.60 crore as on March 31, 2024 (excluding lied marked FD of around ₹6.27 crore). The operating cycle of MG elongated from 61 days during FY23 to 111 days during FY24 mainly due to trading sales (including high sea sales) at year end date which has higher credit period of around 90-100 days.

Applicable criteria
Consolidation
Definition of Default
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

MG consists of five entities ASL, MKSAIPL, MIPL, PIPL and MRML, out of which, the former four entities (except MRML) are engaged into ship recycling business while MRML has a rolling mill plant and engaged into manufacturing of secondary steel products such as angles, channels and round bars. The ship recycling operations of all four entities are carried out at the premises leased out by GMB in Bhavnagar. The promoters of MG have experience of more than three decades in the ship-recycling industry.
ASL (CIN: L27310GJ1980PLC004096) was incorporated as a Private Limited Company in 1980 and was converted into Public Limited Company in 1986. During FY17, MG acquired majority stake in the company. ASL is engaged in ship recycling activities at its facility located at Alang-Sosiya belt of Bhavnagar region in Gujarat having frontage of 83 meters.

Brief Financials (₹ crore)- Combined (MG)	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	528.48	453.59
PBILDT	27.16	12.95
PAT	10.60	6.43
Overall gearing (times)	2.33	0.95
Interest coverage (times)	1.30	0.89

UA: Un-Audited; as financials are combined by the analytical team based on line-by-line addition and netting off intergroup transactions; Note: 'these are latest available financial results'

Brief Financials (₹ crore)- Standalone (ASL)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	110.83	213.32
PBILDT	11.95	11.35
PAT	2.01	1.04
Overall gearing (times)	6.06	5.38
Interest coverage (times)	1.36	1.13

A: Audited; UA: Un-Audited; Note: 'these are latest available financial results'

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 May 27, 2024 on account of inadequate information and lack of management cooperation.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	125.00	CARE BBB; Stable / CARE A3

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 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	125.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (07-Aug-23)	1)CARE BBB; Stable / CARE A3 (06-Dec-22)	1)CARE BBB; Stable / CARE A3 (03-Nov-21) 2)CARE BBB-; Stable / CARE A3 (24-Sep-21)

LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Jignesh Trivedi Assistant Director **CARE Ratings Limited** Phone: 079-40265631 E-mail: jignesh.trivedi@careedge.in Bhaumik Shah Analyst **CARE Ratings Limited** E-mail: Bhaumik.shah@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 detailed Rationale Report and subscription information,
please visit www.careedge.in