Kamdar and Associates

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	95.00 (Enhanced from 65.00)	CARE BBB-; Negative / CARE A3	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	1.90 (Enhanced from 1.30)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Kamdar and Associates (KA), CARE Ratings Limited (CARE Ratings) has considered the combined business and financial profile of three entities, namely, Kamdar and Associates, Panchvati Ship Breakers (PSB; rated 'CARE BBB-; Negative/ CARE A3') and Sagar Laxmi Ship Breakers (SLSB; rated 'CARE BBB-; Negative /CARE A3'), collectively known as Kamdar Group (KAG). This is due to the fact that all the three entities operate in the same line of business, i.e., ship recycling, and are jointly managed by a common set of promoters.

The ratings of KAG continue to derive strength from the extensive experience of the partners in ship-recycling industry, along with the presence of its ship-recycling yards at Alang which is India's largest ship-recycling cluster and certifications in place regarding environmental and worker safety for its yards. The ratings also derive strength from KAG's moderate albeit fluctuating scale of operations, moderate capital structure and adequate liquidity.

The ratings, however, continue to remain constrained on account of KAG's thin profitability in FY24 (refers to the period from April 1 to March 31) and constitution as partnership firm. The ratings are further constrained on account of exposure to adverse movement in steel prices and forex rates, presence in a cyclical industry as well as exposure to regulatory and environmental hazards risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations along with improvement in PBILDT margin to more than 5% on a sustained basis.
- Increase in net worth base leading to comfortable capital structure with overall gearing below 1.50x on a sustained basis during periods where ship recycling activity is being undertaken.
- LC coverage ratio above 1.40x on a sustained basis [LC (letter of credit) coverage is defined as the ratio of an entity's outstanding inventory and fixed deposits (including margin money) to its outstanding fund based and non-fund-based bank borrowings.]

Negative factors

- Non availability of ship for extended period impacting the scale of operations or continued subdued profitability.
- Deterioration in LC coverage ratio below 1.15x on a sustained basis (considering the stipulation of 15% margin by the lender for LCs of KAG).
- Extension of sizeable loans and advances to external entities engaged in unrelated business activities.

Analytical approach: Combined

For arriving at the credit rating, CARE Ratings has combined the business and financial risk profiles of KA, PSB and SLSB [together referred to as Kamdar Group (KAG)] as all three entities are operate in same line of business, i.e., ship recycling with partnership share being held by family members and have exhibited cashflow fungibility.

Outlook: Negative

The outlook assigned to the long-term bank facilities of KA has been revised from 'Stable' to 'Negative' on account of expectation that performance of the group shall continue to remain subdued in FY25 on the back of limited availability of ship for recycling. The outlook maybe revised to 'Stable' if the group is able to purchase ships for recycling providing revenue visibility over the medium term.

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

Detailed description of the key rating drivers

Key strengths

Experienced promoter group in ship recycling industry

The Kamdar group is one of the oldest groups in ship-recycling industry at Alang and has been successfully operating the business through various business cycles for around four decades. Harshad Padia, key promoter, possesses an experience of over three decades in the ship-recycling industry. Due to Gujarat Maritime Board's (GMB's) policy of allotting only one plot to one entity, KAG set-up three different entities in similar line of business. It receives the benefit of economies of scale in the fragmented ship recycling industry and has relatively better bargaining power vis-à-vis its suppliers (mainly the shipping companies/ brokers selling old vessels) as well as its customers, viz., the re-rolling mills and the scrap traders. Furthermore, the promoters have on a need basis, infused funds in the form of unsecured loans/capital to support operations of various entities of the group**.**

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

The group's ship-recycling yards are located at Alang-Sosiya belt which is considered to be 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 sea coast of Alang. All the yards of KAG have frontage of 80 meters.

NK class, IR class and RINA certification

Various agencies including Indian Register (IR) Quality Systems, Nippon Kaiji Kyokai (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. Some of 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 and that under European Union regulations. KAG's ship-recycling yards also possess these certifications, which gives it an advantage to source ships at marginally better prices compared with market rates. KA and PSB have RINA as well as IR certification while yard under SLSB holds NK class certification.

Moderate but fluctuating scale of operations albeit thin profitability

Over the years, scale and profitability of the group on a combined basis has remained volatile depending upon the availability of ship for cutting along with the volatility associated with steel scrap prices. During FY24, KAG reported TOI of Rs. 141.54 crores in FY24 as against Rs. 298.53 crores in FY23. Profitability also continued to remain very thin with PBILDT margin of 0.32% in FY24 as compared to 0.42% in FY23 due to low realization owing to adverse steel price volatility and foreign exchange fluctuation. This further translated into modest GCA of Rs. 0.98 crore in FY24.
During Q1FY25, the group reported TOI of around Rs. 31 crores, mainly from unsold inventory as on FY24 end. Further, a ship of around 9000 MT has been purchased by one of the group entity (Panchvati Ship Breakers) on May 1, 2024.

Moderate capital structure

KAG's total debt primarily comprises of outstanding LC obligations against the purchase of ship along with some utilization of fund based working capital limit which is used only for paying customs duty, port charges and IGST (on reverse charge basis) prior to beaching of the ship. During the year ended FY24, the group had outstanding LC of Rs. 31.30 crores and negligible utilization of working capital limits resulting in low outstanding debt as on March 31, 2023. Owing to this, the capital structure of KAG remained comfortable with an overall gearing of 0.53x as on March 31, 2024 (0.03x as on March 31, 2023).
Further, owing to thin operating profitability, interest coverage remained below unity at 0.10x in FY24. However, debt repayment was supported by interest income earned on loans and advances and subsidy received from government.

Key weaknesses

Constitution as a partnership firm

All the entities of KAG are partnership concerns which restricts its financial flexibility and there is an inherent risk of withdrawal of capital by the partners from the firm. Distribution of profits of the business by way of withdrawal from partners can adversely impact the net worth base and capital structure of the firm.

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 KAG 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. 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

Liquidity: Adequate

The group had adequate liquidity marked by low utilization of working capital limit, cash flow from operations of Rs. 13.74 crores, and moderate LC coverage ratio. The average non-fund-based limit utilization for the past twelve months ended June 2024 stood around 8.5% and that of fund-based limits was around 44% for the past twelve months ended June 2024. As on March 31, 2024, group reported cash and bank balance (including lien marked FD and MF investment) of Rs.19.28 crore. Also, the group has extended loans and advances to external parties amounting to Rs. 16.51 crore as on March 31, 2024.

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. KAG had moderate LC coverage ratio of 1.22x as on July 31, 2024

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Consolidation
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

About the group-KAG

Kamdar Group (KAG) consists of three partnership firms, i.e., KA, PSB and SLSB incorporated in the years, 1984, 2000 and 2002, respectively. KAG, managed by the Padia family of Bhavnagar, is engaged in ship-recycling activity at three plots in the Alang – Sosiya belt of Bhavnagar region. All three plots have frontage of 80 meters, taken on lease from GMB for a period of one year and on completion of the tenure of agreement, the lease is renewed at prevailing lease rental rates.

About the firm
KA was incorporated in 1984 by Mr. Harshad Padia and Mr. Raju Padia and is one of the oldest ship-recycling entities of the ship recycling facilities at Alang-Sosiya belt of Bhavnagar region in Gujarat.

Brief Financials (₹ crore)-Combined (Kamdar Group)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	298.53	141.54
PBILDT	1.27	0.45
PAT	0.10	0.59
Overall gearing (times)	0.03	0.53
Interest coverage (times)	0.29	0.10

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore)-Standalone (Kamdar & Associates)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	46.50	86.32
PBILDT	0.33	1.20
PAT	0.07	0.08
Overall gearing (times)	0.00	1.04
Interest coverage (times)	0.51	0.57

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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
Non-fund-based - LT/ ST-Letter of credit		-	-	-	95.00	CARE BBB-; Negative / CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.90	CARE A3

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 - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (24-Nov-21)
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST	95.00	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Oct-23)	1)CARE BBB-; Stable / CARE A3 (02-Dec-22)	1)CARE BBB-; Stable / CARE A3 (24-Nov-21)
3	Non-fund-based - ST-Credit Exposure Limit	ST	1.90	CARE A3	-	1)CARE A3 (20-Oct-23)	1)CARE A3 (02-Dec-22)	1)CARE A3 (24-Nov-21)

LT: Long term; 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	Non-fund-based - LT/ ST-Letter of credit	Simple
2	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.

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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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