

P. Patel Ship Breaking Company

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	89.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	Revised from CARE BB; Stable / CARE A4+ and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	1.42	CARE A4; ISSUER NOT COOPERATING*	Revised from CARE A4+ and moved to ISSUER NOT COOPERATING category

Details of instruments/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 P. Patel Ship Breaking Company (PPSBC) to monitor the rating(s) vide e-mail communications/letters dated July 05, 2024, July 15, 2024, and August 16, 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, PPSBC has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on PPSBC'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 revision in the ratings assigned to the bank facilities of PPSBC is on account of decline in scale of operations during FY24 (Provisional, FY refers to period April 01 to March 31) and non-availability of requisite information for rating exercise. The ratings continue to remain constrained owing to its moderate profitability, constitution as partnership firm, significant loans and advances given to third parties, and exposure to volatility in steel/ scrap prices and foreign rates. The ratings also factor in cyclicity associated with ship recycling industry and exposure to regulatory and environment hazard risk.

The ratings, however, continue to derive strength from experienced partners in the ship recycling industry, its presence in one of largest ship breaking yard at Alang-Sisoya belt and comfortable leverage

Analytical approach: Combined

For arriving at the credit rating, CARE Ratings has combined the financial risk profile of ASBC, and P. Patel Ship Breaking Company (PPSBC) [together referred to as Alang Patel Group (APG)]. Both the entities are closely held by a common promoter family, operating in the similar business i.e., ship recycling industry and have fungibility of the cash flows

Outlook: Stable

The outlook on the long-term rating of ASBC is "Stable" as CARE Ratings expects the entity would continue to benefit from the extensive experience of the promoters in the industry along with location advantage with presence in Alang-Sosiya region.

Detailed description of the key rating drivers:

At the time of last rating on June 19, 2023, the following were the rating strengths and weaknesses (updated for the information provided by PPSBC)

Key weaknesses

Decline in scale of operations during FY24 and moderate profitability

Over the years, Total operating income (TOI) of the group on a combined basis has remained moderate and varied as per the availability of ship for cutting along with the volatility associated with steel prices. During FY24, TOI of APG stood at ₹18.00 crore as against ₹100.85 crore in FY23, on account of unavailability of ships for recycling.

PBILDT margin of APG have remained fluctuating and moderate due to low value additive nature of business apart from impact of volatile steel prices and forex rates. The PBILDT margins of the group have moderated on a combined basis from 0.40% to -4.55% in FY24. The moderation in profitability is due to limited ship-recycling activity taken during FY24 thereby impacting its profitability. The PAT margin however improved by 187 bps during FY24 to 2.70% (FY23: 0.84%) due to interest income of loans and advances given to third parties. On standalone basis, PPSBC reported TOI of ₹1.02 crore (FY23: ₹10.30 crore) with operating loss of -60.69% as against PBILDT margin of -1.58% in FY23, and PAT margin of 13.44% (FY23: 1.72%) during FY24.

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

Constitution as partnership firms with significant loans and advances given to third parties

Both the entities in APG are partnership firms and thus exposed to inherent risk of partners' capital being withdrawn at time of personal contingency, and firm being dissolved upon the death/retirement/insolvency of partners. Further, partnership firms have restricted access to external borrowing as credit worthiness of partners would be key factors affecting credit decision for lenders. Also, both entities have given loans and advances to third parties which stood at Rs.25.86 crore as on March 31, 2024 (Rs.22.67 crore as on March 31, 2023), timely receipt of the same is a key credit monitorable.

Exposure to volatility in steel/ scrap prices and foreign rates

APG uses LC facility to purchase old ships. Since the transactions are denominated in United States Dollars (USD), the firm is exposed to forex risk during the LC's usance period, as the firm's revenue is denominated in Indian Rupee (INR). The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes APG to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap held by the firm.

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 is adversely impacted in near term due to high freight prices. Furthermore, Indian ship-recycling yard face intense competition from the neighbouring countries like Bangladesh and Pakistan.

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 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.

Key strengths

Experienced partners in the ship recycling industry

The partners have wide experience in the ship-recycling industry and have successfully run the business through various business cycles in the industry. Mr. Bhagwan P. Patel and Mr. Velji M. Sheta, Mr. Devraj M Patel, Mr. Mohan B. Sheta, Mr. Nanubhai P. Patel, and Mr. Rajiv P. Patel are partners in PPSBC while Mr. Kanaivalal D. Patel, Mr. Kiran M. Patel, Mr. Mahesh D. Patel, and Mr. Manji G Patel are partners in ASBC.

Comfortable leverage as on balance sheet date

The overall gearing of APG stood nil as on March 31, 2024, as compared to 0.01 times as on March 31, 2023, due to nil outstanding of 'LC backed creditors' as on March 31, 2024, on account of unavailability of ships for recycling. Capital base stood modest at Rs.33.48 crore as on March 31, 2024.

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

The ship recycling yard is located at Alang-Sosiya belt, which constitutes nearly 90% of India's ship-recycling activities and it is India's largest ship- recycling 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 seacoast of Alang.

Liquidity: Stretched

APG has stretched liquidity marked by low cash accruals of Rs.0.73 crore cash and low cash equivalents ~Rs. 0.90 crore. The current ratio for APG stood at 30.94 times as on March 31, 2024 (PY: 30.53 times). Also, the average monthly fund-based utilization and LC utilization for the past twelve months stood nil for PPSBC and ASBC due to no availability of ships for recycling activity.

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, LC coverage of PPSBC stood not measurable as on March 31, 2024, due to no ship as on balance sheet date.

Applicable criteria

[Policy in respect of non-cooperation by issuers](#)

[Consolidation](#)

[Definition of Default](#)

[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

Alang Ship Breaking Corporation (ASBC)

Incorporated on April 01, 1994, Alang Ship Breaking Corporation (ASBC) and is engaged in the ship recycling at Alang-Sosiya belt of Bhavnagar region in Gujarat. ASBC carry out ship-recycling activity at plot no. 93 with total plot size of 2025 sq. meters having frontage of 45 meters. The premises are leased out by Gujarat Maritime Board (GMB) in Bhavnagar.

P. Patel Ship Breaking Company (PPSBC)

Incorporated on May 14, 1990, as partnership firm, P. Patel Ship Breaking Company is a partnership firm and is engaged in ship recycling activity at Alang-Sosiya belt of Bhavnagar region in Gujarat. PPSBC is engaged in ship-recycling activity at plot no. 46 with total plot size of 2385 sq. meters having frontage of 53 meters. PPSBC is carrying out operations at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar.

Brief Financials (₹ crore) - Combined	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	100.85	18.00
PBILDT	0.40	-0.82
PAT	0.84	0.49
Overall gearing (times)	0.01	0.00
Interest coverage (times)	0.42	NM

NM: Not measurable UA: Unaudited; as financials are combined by the analytical team based on, line by line addition of ASBC and PPSBC; 'Note: 'the above results are latest financial results available'

Brief Financials (₹ crore) – Standalone (PPSBC)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	10.30	1.02
PBILDT	-0.16	-0.62
PAT	0.18	0.14
Overall gearing (times)	0.01	0.00
Interest coverage (times)	NM	NM

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

Status of non-cooperation with previous CRA: Brickwork Ratings has reviewed the ratings assigned to the bank facilities of PPSBC under Issuer Not Co-operating Category vide its press release dated April 23, 2024, due to non-availability of adequate information.

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	89.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.42	CARE A4; ISSUER NOT COOPERATING*

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

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 (19-Jun-23)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (27-Jun-22)	1)CARE B; Stable; ISSUER NOT COOPERATING* (30-Apr-21)
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	89.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable / CARE A4+ (19-Jun-23)	1)CARE A4; ISSUER NOT COOPERATING* (27-Jun-22)	1)CARE A4; ISSUER NOT COOPERATING* (30-Apr-21)
3	Non-fund-based - ST-Credit Exposure Limit	ST	1.42	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (19-Jun-23)	-	-

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

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	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:

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