Unique Ship Breaking Corporation

October 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	40.00	CARE BB-; Stable / CARE A4	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Unique Ship Breaking Corporation (USBC) are constrained on account of fluctuating and moderate scale of operations along with thin profitability margins with modest net worth base and debt coverage indicators, partnership nature of constitution, susceptibility of its profitability to volatile steel prices and adverse movement in forex rates. The ratings are also constrained due to cyclicality and competition associated with ship recycling industry and exposure to regulatory and environmental hazard risk.

The ratings continue to derive strength from experienced promoters, long track record of operations in ship recycling industry with certification for green recycling and its presence in one of the largest ship recycling yards at Alang- Sosiya belt.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with total operating income (TOI) of more than Rs. 150.00 crore with profit before interest, lease, depreciation and tax (PBILDT) margin above 5% on sustained basis.
- Improvement in Letter of Credit (LC) Coverage above 1.5x on sustained basis.

Negative factors

- Decrease in scale of operations with TOI below Rs.70 crore with PBILDT margin below 1.50% on sustained basis.
- Decline in LC Coverage Ratio below unity.

Analytical approach: Standalone

Outlook: Stable

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

Detailed description of key rating drivers:

Key weaknesses

Fluctuating scale of operations and thin profitability margins

Over the years, USBC's scale of operations remained moderate and volatile as per availability of ships and volatility associated with steel prices. During FY24(Prov.), TOI of the firm decreased by ~66.31% Y-o-Y and stood at Rs. 33.81 crore as against Rs. 100.35 crore in FY23 due to limited availability of ships at competitive price during FY24. However, till August 31, 2024, USBC generated sales of ~Rs. 37.00 crore, and right now, the breaking of two ships, totalling 4839.30 tonnes, is underway. The management anticipates purchase of two more ships over the coming months, expected to contribute ~Rs.50 crore.

Profitability margins of the firm remained thin due to trading nature of its operations. PBILDT margin decreased from 1.17% in FY23 to 0.03% in FY24(Prov.) on account of proportionate higher fixed costs on declined revenue. However, PAT margin increased but remained thin at 1.77% in FY24(Prov.) as against 0.78 % in FY23 due to increase in non-operating income which consists of interest income from loans advanced to various parties (USBC charges 12% interest on these loans) and profit on sale of office of Rs.14.25 lakhs.

Comfortable capital structure although modest debt coverage indicators

USBC's total debt primarily comprises of outstanding LC obligations against the purchase of ship and unsecured loans. The capital structure remained comfortable marked by overall gearing of 0.22x (1.32x on FY23 end) as on March 31, 2024, on a modest net worth base of Rs.14.56 crore. The capital structure improved on account of lower outstanding LC obligations due to limited availability of ships for purchase. The firm uses fund based working capital limits only on need basis and has remained nil on March 31, 2023, as well as March 31, 2024. The debt coverage indicators remained moderated marked by Total Debt/ GCA of 3.88x as on FY24 end.

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

Partnership nature of constitution
The constitution as a partnership firm restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/retirement/insolvency/personal contingency of any of the partners. During FY24, the partners made a withdrawal of Rs. 0.57 crore.

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 USBC 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 firm.
The business model of USBC largely requires a non-fund-based facility i.e. Letter of Credit (LC) which is used to purchase the old ships for ship recycling activity. LC is denominated in foreign currency whereas the firm's revenue is denominated in Indian Rupee (INR), hence the firm is exposed to forex risk.

Cyclicality associated with ship recycling industry coupled with competition of global peers
The ship breaking 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-breaking activity depends upon the prices of old vessels (which depends on international trade volumes and regulations governing plying of ships) as well as price of steel, as the scrap generated from ship breaking activity is used for making steel, which competes with the price of steel made from other routes (primarily from iron ore through blast furnace route).

Exposure to Regulatory and Environment hazard risk
The ship-breaking industry is highly regulated with strict working and safety standards to be maintained by the ship-breakers 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 promoters
USBC is one of the oldest entities (incorporated since 2002) in ship breaking industry at Alang, operating from Plot No. 107 and has been successfully able to operate its business through various business cycles. Till date, the firm has broken a total of 99 ships. Mr. Sajidbhai I. Jaka holds 50% stake in the partnership and has an experience of around 20 years in the ship breaking industry. The other partners in the firm are Mr. Sohilbhai S. Lakhani and Mr. Salimbhai U. Kaliwala and have been associated with the firm since the beginning.

Location of yard at Alang which has unique geographical features suitable for ship-breaking operations
The ship breaking yard is located at Alang-Sosiya belt which is considered to be one of the world's largest ship-breaking yards and caters to nearly 90% of India's ship-breaking 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. The plot size for USPC is 5460 sq. metres (60m*91m).

Class IR Certification
Various agencies such as Class IR i.e., Indian Register of Shipping, Nippon Kaiji Kyokai i.e. Class NK, RINA S.P.A etc. certifies the operations of the ship-breaking yards from the environmental and worker safety points of view, including secure management of hazardous waste generated from the ship-breaking activities. 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 under "Green recycling - Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution MEPC.210 (63)" under European Union regulations. This compliance is in relation to the infrastructure and better environment friendly practices and results in lower procurement cost of ships for group and a preference in ship recycling.
USBC has obtained IR class certification, which gives an edge in sourcing ships at a marginally better price as compared to market rate. The certification is valid till March 11, 2029, subject to continued compliance with related guidelines and periodical audits.

Liquidity: Stretched

USBC has stretched liquidity marked by negative cash flow from operations of Rs.5.16 crore (positive 10.43 crore in FY23) which declined owing to decrease in LC backed acceptances due to limited availability of ships for purchase in 2024. The LC coverage ratio stood at 1.81x as on March 31, 2024(Prov.). USBC has reported gross cash accruals (GCA) of Rs. 0.83 crore in FY24(Prov.) with no term loan repayments scheduled in FY25. Average utilization of fund based working capital limits remained comfortable at 17% in last 6 months ended in August 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. The lien marked FD stood at Rs. 3.12 crore as on March 31, 2024, against outstanding LC obligation of Rs. 3.22 crore.

Applicable criteria

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

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Unique Ship Breaking Corporation (USBC) was established in 2002 as a partnership firm and is engaged in ship breaking activity at its plot having size of 5,460 (60m*91m) square metres at the Alang-Sosiya belt of Bhavnagar region in Gujarat. The firm is managed by three partners namely, Mr. Sajidbhai Jaka, Mr. Sohilbhai S. Lakhani and Mr. Salimbhai U. Kaliwala who are having have more than two decades of experience in the ship breaking industry. USBC's yard is IR class certified.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	100.35	33.81
PBILDT	1.17	0.01
PAT	0.78	0.60
Overall gearing (times)	1.32	0.22
Interest coverage (times)	1.56	0.07

A: Audited Prov.: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified USBC as "Non cooperating" vide its press release dated June 21, 2024.

ICRA has conducted the review on the basis of best available information and has classified USBC as "Non cooperating" vide its press release dated February 28, 2024.

India Ratings has conducted the review on the basis of best available information and has classified USBC as "Non cooperating" vide its press release dated November 08, 2023.

Brickwork has conducted the review on the basis of best available information and has classified USBC as "Non cooperating" vide its press release dated January 03, 2024.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - ST-Bank Overdraft		-	-	-	5.00	CARE A4
Non-fund-based - LT/ ST-Letter of credit		-	-	-	40.00	CARE BB-; Stable / CARE A4

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	Non-fund-based - LT/ ST-Letter of credit	LT/ST	40.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (11-Oct-23)	-	-
2	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A4	-	1)CARE A4 (11-Oct-23)	-	-

LT: Long term; ST: Short term; 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 - ST-Bank Overdraft	Simple
2	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 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.

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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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