

## Navyug Ship Breaking Company

October 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	17.00	CARE BB; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BBB-; Negative and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	118.00	CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE A3 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 Navyug Ship Breaking Company (NSBC) to monitor the rating(s) vide e-mail communications/ letters dated October 04, 2024, September 16, 2024, September 10, 2024, August 27, 2024, August 13, 2024, and July 08, 2024, and numerous phone calls. However, despite our repeated requests, the company 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. The rating on NSBC'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 rating has been revised on account of non-availability of requisite information to conduct the review. The ratings assigned to the bank facilities of NSBC remains constrained on account of fluctuating total operating income which declined substantially due to non-availability of ship, decline in profitability and constitution as partnership firm. The ratings further remain constrained on account of exposure to adverse movement in steel prices and forex rates, cyclical industry as well as exposure to regulatory and environmental hazards risk.

The ratings, however, derive strength from its experienced partners in the ship-breaking industry, presence in Alang-Sosiya region which is one of the largest ship-breaking yards of the country and various certification for green recycling.

**Analytical approach:** Standalone

### Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters in the ship breaking industry.

### Detailed description of key rating drivers:

At the time of last rating on October 06, 2023, the following were the rating strengths and weaknesses:

#### Key weaknesses

##### Fluctuating total operating income which declined substantially in FY23 along with decline in profitability

Over the years, total operating income (TOI) of the firm has remained moderate and varied as per the availability of ship for cutting along with the volatility associated with steel prices. During FY23, NSBC reported TOI (trading income) of ₹5.09 crore as against TOI of ₹97.44 crore in FY22 mainly due to unavailability of ships due to high freight rates. With minimal operations, NSBC reported operating loss in FY23 (FY22: 4.00%). However, it reported net profit of ₹0.34 crore on the back of interest income earned during the period. Furthermore, CARE Ratings notes that there are no business operations conducted in FY23 and FY24.

#### Constitution as a partnership firm

NSBC is a partnership concern 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. The net worth base remained moderate at ₹28.31 crore as on March 31, 2023, with some capital withdrawal of ₹3.72 crore towards payment to one of the partners who retired from the business in the current year.

### Exposure to adverse movement in steel prices and forex rates

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes NSBC 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 (which is generally minimal). The firm uses Letter of Credit (LC) facility to purchase old ships. Since the transactions are denominated in foreign currency, the firm is exposed to the forex risk during the LC Usance period, as the firm's revenue is denominated in Indian Rupee (INR). However, firm is doing hedging as per market situation thus mitigating exposure to certain extent.

### **Cyclical and competitive industry**

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. 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. 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 have to be properly disposed-off as per the regulatory guidelines.

### **Key strengths**

#### **Extensive experience of the partners in ship-breaking industry**

The partners of NSBC have an extensive experience in the ship-breaking industry, being one of the oldest players in the ship breaking industry of Alang, Gujarat, and having successfully run the business through various business cycles. Vishnu Bhagwan Tayal (founding partner), a chartered accountant, has more than three decades of experience in the ship-breaking industry and ferrous as well as non-ferrous metal trading business through other group entities, viz., Navyug Alloys Private Limited and Navyug Steel Industries. Deepak Tayal (co-founding partner) is also a chartered accountant, with experience of more than two decades in the same industry.

#### **Location of yard at Alang having unique geographical features suitable for ship-breaking operations**

The firm's 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.

#### **NK Class and RINA certifications**

Various agencies including Indian Register Quality Systems and RINA certify 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. Some of these certifications are carried out 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. NSBC's ship breaking yard also possess NK Class and RINA Class certification, which gives it an advantage in procuring ships.

#### **Comfortable capital structure**

During March 31, 2023, utilisation of both fund-based and non-fund-based limits stood NIL. With no ships for dismantling, NSBC's capital structure stood very comfortable, marked by NIL debt as on March 31, 2023, and August 31, 2023. However, it has given loans and advances to third parties which stood at ₹13.39 crore as on March 31, 2023, which increased to ₹23.22 crore as on September 20, 2023. Timely receipt of loans and advances from third parties shall be crucial for the credit perspective

### **Applicable criteria**

[Definition of Default](#)

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

[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

Bhavnagar-based, Navyug Ship Breaking Company (NSBC) is a partnership firm, formed by five partners in 2004. NSBC is engaged in the ship-breaking business in the Alang-Sosiya belt of Bhavnagar region in Gujarat, in a plot of 61\*82 sq. meters, leased out by Gujarat Maritime Board (GMB).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	97.45	5.09
PBILDT	3.89	-0.50
PAT	1.68	0.34
Overall gearing (times)	0.00	0.00
Interest coverage (times)	4.74	-0.82

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**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 - LT-Cash Credit		-	-	-	17.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	118.00	CARE A4; ISSUER NOT COOPERATING*

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

**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 - LT-Cash Credit	LT	17.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Negative (06-Oct-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (13-Dec-21) 2)CARE BBB-; Stable (23-Nov-21)
2	Non-fund-based - ST-Letter of credit	ST	118.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A3 (06-Oct-23)	1)CARE A3 (02-Jan-23)	1)CARE A3 (13-Dec-21) 2)CARE A3 (23-Nov-21)

\*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 rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - 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](mailto: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.

### Disclaimer:

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