Jawandamal Dhannamal

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	60.00	CARE BB+; Stable / CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings to the bank facilities of Jawandamal Dhannamal (JD) continue to be constrained by the working capital-intensive nature of operations, coupled with presence in a highly fragmented and competitive industry landscape which is subject to cyclicality, customer concentration risk, exposure to volatility in steel prices and exposure to regulatory and environmental hazard risks. The ratings, however, draw comfort from the experienced promoter group along with comfortable capital structure and debt coverage indicators. The ratings also factor in favourable location for a ship recycling yard at Alang with Class NK certification to its name.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in scale of operations to more than Rs. 250 crore and profit below interest, lease rentals, interest, depreciation and taxes (PBILDT) margins above 5% on a sustained basis.
- Improvement in LC coverage ratio beyond 1.50 times on a sustained basis.

Negative factors

- Decline in scale of operations below Rs. 100 crores with PBILDT margin below 3% on a sustained basis
- Deterioration in LC coverage ratio below 1.15 times on a sustained basis
- Any major diversion of funds to non-core business operations

Analytical approach: Combined

While arriving at the ratings, CARE Ratings has considered the combined financials of Jawandamal Dhannamal HUF, Jawandamal Dhannamal Firm and Jawandamal Dhannamal Recycling LLP referred to as JD, as all these entities have common promoters and operates in similar line of business. However, it is expected with effect from FY26 onwards, all businesses of these 3 entities would be under one entity.

Outlook: Stable

CARE Ratings believes JD is expected to benefit from the successful track record and the experience of the partners in the industry along with the benefits that accrue from Class NK Certification of its Alang shipyard.

Detailed description of key rating drivers:

Key weaknesses

Customer Concentration Risk

JD's customer base primarily consists of steel traders, wholesalers, and small-scale industrial end users. However, the firm is exposed to customer concentration risk with their top five customers contributing 60% of TOI in FY24 (PY: 62%). While this exposes JD to counterparty risk, comfort can be drawn from the fact that the firm has established relationships with these clients.

Exposure to volatility in steel prices and forex rates

Various types of ships including oil-gas tankers, container carriers, bulk-cargo carriers, passenger ships, and naval ships are brought to Alang for recycling. The steel industry is a geopolitically relevant industry with intricate supply chains. The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes the uncut ship inventory to any adverse price movement as well as unsold inventory of steel scrap held by the firm. 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 forex risk during the LC usance period, as their revenue is denominated in Indian Rupee (INR). The firm typically hedges 90-95% of their exposure.

Cyclical and competitive industrial landscape

The ship recycling industry is inherently cyclical, influenced by the supply of old ships for recycling, which is inversely related to global freight rates. Freight rates are determined by the dynamics of the global seaborne transport market and the supply of new vessels, both of which depend on global merchandise trade. During economic recessions, when freight rates are low, it becomes more economical to dismantle ships rather than operate them, leading to a better supply of old ships for recycling. The global

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

ship recycling industry is predominantly concentrated in four countries: India, Pakistan, Bangladesh, and Turkey. The activity levels in these countries fluctuate annually, depending on the availability of ships for scrapping. Indian ship-recycling yards face intense competition from neighbouring countries like Bangladesh and Pakistan, primarily due to the availability of low-wage labour and less stringent health and environmental regulations.

Working capital intensive nature of operations
JD requires bank LC facilities to buy traded goods and the working capital credit facilities to finance the collection period of debtors. In case of ship breakage, it uses the bank OD limit to finance the operating costs. In typical operating cycle for steel trading, max operating cycle is 120 days – 1 month procurement under LC and immediate sales with max 90 days credit period. In case of ship breakage, operating cycle could extend up to max 180 days as JD requires around 60 days to scrap the ship, in addition to procurement time and credit sales. This long working capital cycle creates requirement for working capital limits from bank. JD's gross current asset (GCA) days stood at 219 days in FY24 compared to 131 days in FY23, on account of overall increase in inventory levels from Rs. 3.92 crores in FY23 to Rs. 16.61 crores in FY24 and loans & advances from Rs. 31.95 crores in FY23 to 39.83 crores in FY24, of which 9.79 crores were advance against purchases and Rs. 18.33 crores (Rs. 8.50 crore as on July 31, 2024) were due from sister-concern Devki Nandan J Gupta Metals LLP (DGM).

Moderation in TOI and moderate profitability margins in FY24
The firm witnessed Y-o-Y moderated increase in its total operating income (TOI) of roughly 5% during FY24, to Rs.116.91 crore (Rs.111.65 crore in FY23). JD procures ships after assessing market conditions, which, if are favourable or prices are viable, they deliberately increase the procurement of ships. In FY24, JD procured one ship. JD operates in the ship recycling & scrap trading sector which is highly competitive due to large number of players. As a result, the PBILDT margins are range bound between 2%-7%. PBILDT margin improved to 3.50% during FY24 vis-à-vis 2.25% in FY23. Trading in various ferrous metal scrap on back-to-back orders basis coupled with increased volume in trading of some ferrous metals having high margins has contributed for the improved margins.

Exposure to regulatory and environmental hazards
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 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, acid, hazardous paints, etc. that have to be properly disposed-off as per the regulatory guidelines. Government of India has enacted the Recycling of Ships Act, 2019 ("Act"). The preamble of this Act mentions that it is an Act to provide for the regulation of recycling of ships by setting certain standards and laying down the statutory mechanism for enforcement of such standards and related matters. The Act imposes a statutory duty on ship recyclers to ensure safe and environmentally sound removal and management of hazardous materials from a ship. It further imposes an obligation on a ship recycler to ensure that there is no damage caused to the environment in any form due to the recycling activities at the ship recycling facility. Thus, if any adverse circumstances or event may affect business operations of entities.

Partnership constitution of the entity
JD is established as a partnership, thus the risk associated with withdrawal of capital by partners exists. The firm is inherently exposed to risk of capital withdrawal by partners at the time of personal contingency.

Key strengths
Experience of the partners
Founded in 1949, Jawandamal Dhannamal (JD) is a partnership firm which is engaged in the business of Ship Recycling and trading of iron and steel scrap. The business was started by Late Mr. Devkinandan J. Gupta. His son Mr. Sanjay Gupta is the sole proprietor of the firm. Mr. Sanjay Gupta has been managing the group for more than 30 years and has established long-standing relationship with local industrial end users for scrap and overseas suppliers. His two sons, Dhruv Gupta and Sahej Gupta are assisting him in the operations of the firm.

Location of shipbreaking yard at Alang accredited with Class NK certification
The plot at Alang, where JD carries out ship dismantling and recycling activity has been taken on lease for a period of 10 years from Gujarat Maritime Board (GMB). It is classified as a green recycling yard, compliant with International Maritime Organization's Hong Kong Convention. JD has received a Class NK certification for its yard at Alang. An NK Certification class gives ship recycler an advantage to source ships at marginally better prices compared with market rates.

Comfortable financial risk profile
Overall debt level of Rs. 39.21 crore as on March 31, 2024, has increased compared to Rs. 26.24 crore as on March 31, 2023. The increase in debt is attributable to LC creditors (for ship purchase) of Rs. 19.46 crore, working capital borrowings and unsecured loans from friends/family/business relations. LC availed has been repaid in Q1FY25. Also, unsecured loans outstanding as on March 31, 2024, of Rs. 3.55 crore have been repaid in FY25. JD obtained external unsecured financing largely to procure inventory. Despite increase, the firm's overall gearing remained comfortable at 0.81x as on March 31, 2024 (PY: 0.01x).

Liquidity: Adequate

The firm's liquidity position is adequate, marked by LC coverage ratio near unity as on March 31, 2024, comfort can be drawn from the fact that the LC has been repaid in Q1FY25. The average utilization of fund-based facilities for past twelve months ended August 31, 2024, stood at 13%, while the average of the maximum utilization for the same period was 25%. Receivables position as on March 31, 2024, was Rs. 8.13 crore which is now standing at Rs. 4.25 crore as on August 31, 2024, furthermore comfort is drawn that of this Rs. 4.22 crore has been outstanding for less than 120 days. The adequate liquidity position of the firm is marked by gross cash accruals of Rs. 2.89 crore and no repayment obligations.

Applicable criteria

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

Founded in 1949, Jawandamal Dhannamal (JD) is a partnership firm which is engaged in business of ship recycling, trading of scrap and finished steel products. The business was started by Late Mr. Devkinandan J. Gupta. His son Mr. Sanjay Gupta is currently managing the group's operations and is also the sole proprietor and the karta of "Devkinandan Gupta HUF" which owns JD. The firm carries out ship recycling activity at its ship recycling yard at Alang near Bhavnagar (Gujarat) which has been taken on a lease basis from Gujarat Maritime Board. Trading business is mainly of long products (billets, rounds etc.) which are imported and procured domestically. JD has another associate entity named "Devkinandan J. Gupta Metals LLP" (DGM) (rated CARE BBB-; Stable/CARE A3) which trades in seamless pipes, speciality (alloy) steel and imported scrap. The partners have other entities which are engaged in similar line of business through Jawandamal Dhannamal Recycling LLP and Jawandamal Dhannamal Firm.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY25(UA)
Total operating income	111.65	116.91	38.04
PBILDT	2.51	4.10	N.A.
PAT	2.73	2.67	N.A.
Overall gearing (times)	0.01	0.81	N.A.
Interest coverage (times)	6.55	2.95	N.A.

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/Non-fund-based-LT/ST		-	-	-	60.00	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	Fund-based/Non-fund-based-LT/ST	LT/ST	60.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (03-Nov-23)	1)CARE BB+; Stable / CARE A4+ (06-Dec-22)	1)CARE BB+ / CARE A4+ (CW with Developing Implications) (02-Dec-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

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.

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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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