

## Shirdi Steel Traders

November 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	27.00	CARE BB-; Stable	Assigned
Short Term Bank Facilities	123.00	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Shirdi Steel Traders (Shirdi) are constrained on account of its fluctuating and modest scale of operations, thin profitability, moderate network base as well as weak debt coverage indicators and stretched liquidity. Furthermore, the ratings are also constrained on account of its presence in cyclical and competitive ship breaking industry which is characterised by regulatory and environmental hazards risks and its exposure to adverse movement in steel prices and forex rates. The ratings also take into account Shirdi's proprietorship nature of constitution.

The ratings, however, derive strength from extensive experience of proprietor in the ship breaking industry and its presence at Alang-Sosiya region which is one of the largest ship-recycling yards in the world.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant increase in scale of operations with PBILDT margin of more than 4% on sustained basis.
- Improvement in network base to more than Rs.40 crore

#### Negative factors

- Significant moderation in scale of operations coupled with PBILDT margin below 2% on sustained basis
- LC coverage ratio below unity [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.]

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that Shirdi shall continue to benefit from its experienced proprietor and location advantage with its presence in one of the largest ship-recycling yards.

### Detailed description of key rating drivers

#### Key weaknesses

##### Fluctuating scale of operations and profitability

Over the past couple of years, total operating income (TOI) of Shirdi remained modest and highly fluctuating depending upon the availability of ship for cutting and volatility associated with steel scrap and freight prices. During FY24 (A), Shirdi reported TOI of Rs.65.28 crore, however incurred operating losses (TOI of Rs. 19.02 crore with PBILDT margin of 1.60% in FY23). The PAT Margin remained at 0.56% owing to interest earned from unsecured loans. During the current year, Shirdi has purchased 2 ships worth Rs.97 crore and the firm is expected to register TOI of over Rs.100 crore in FY25. In H1FY25 (UA), Shirdi registered TOI of Rs. 27.61 crore from the new ship purchased along with PBILDT margin of 7.14%.

##### Moderate Capital structure and weak debt coverage indicators

Shirdi's total debt primarily comprises of outstanding LC obligations against the purchase of ship and unsecured loans. Shirdi's capital structure remained moderate, marked by overall gearing of 0.06x as on March 31, 2024, with no outstanding LC on March 31, 2024. Further, during FY24, debt coverage indicator remained modest marked by negative interest coverage ratio owing to PBILDT losses and TDGCA of 2.67 years. As on October 31, 2024, Shirdi had o/s LC and buyer's credit of around Rs.97 crore, out of which, buyer's credit of Rs. 49.59 crore is to be paid by December 12, 2024, and LC of Rs. 47.31 crore is to be paid by February 03, 2025. This was against a modest network base of Rs.26.24 crore as on FY24 end.

<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.

## **Presence in cyclical and competitive ship recycling industry which is characterised by regulatory and environmental hazards risks**

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 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. Further, Indian ship-recycling yard face intense competition from the neighbouring countries like Bangladesh and Pakistan due to availability of low wage labour, lesser occupational health and environment related regulations and larger yards giving better bargaining power to yard owners. The ship recycling industry is highly regulated with strict working and safety standards to be maintained by the shipbreakers for their labourers and environmental compliance. Further, Government of India enacted the Recycling of Ships Act, 2019 ("Act") 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. Thus, any adverse circumstances or event may affect business operations of entities in this industry.

## **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 Shirdi 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). Further, 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 the firm's revenue is denominated in Indian Rupee (INR).

## **Key strengths**

### **Experienced Proprietor**

Shirdi Steel Traders is proprietorship concern of Honey Bansal, engaged in the business of ship breaking activities. Apart from proprietor of Shirdi Steel Traders, Honey Bansal is also director in Shanti Ship Breakers Private Limited, engaged in ship breaking activities. Shanti Ship Breakers Private Limited is owned and controlled by Honey Bansal and his family members.

Honey Bansal is associated with ship breaking industry since last 10 years. Apart from ship breaking, he is also experienced in oxygen gas manufacturing, real estate and trading of metals, scrap, machinery etc.

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

Shirdi'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 130 plots spread over around 10 km long stretch along the seacoast of Alang.

## **Liquidity: Stretched**

Shirdi has stretched liquidity with below unity LC coverage ratio as on September 30, 2024. Also, cash flow from operations remained negative at Rs.2.18 crore at FY24 end owing to losses incurred at PBILDT level. Furthermore, cash and bank balances at FY24 end remained low at Rs. 0.15 crore due to no ship available for recycling. With purchase of 2 ships in current year, cash and bank balance (including lien marked FDs) increased to Rs.17.06 crore as on September 30, 2024, with built up from the sales proceed.

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. Shirdi had LC coverage ratio of 0.98x as on September 30, 2024. Also, Shirdi has extended unsecured loans to external parties; outstanding of which stood at Rs.25.80 crore as on September 30, 2024. Timely recovery of these loans and advances shall be a key rating monitorable.

## **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

Incorporated in 1978, Shirdi Steel Traders is a proprietorship concern of Mr. Honey Bansal, engaged in ship recycling at Alang belt of Bhavnagar, Gujarat. Shirdi Steel Traders was originally proprietorship concern of Rajkumar Bansal. After his death in February 2021, entire business of Shirdi Steel Traders with all assets and liabilities as a going concern was transferred to Honey Bansal, son of Rajkumar Bansal.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	19.02	65.28	27.61
PBILDT	0.31	-0.81	1.97
PAT	0.57	0.36	NA
Overall gearing (times)	0.53	0.06	NA
Interest coverage (times)	0.18	-0.80	NA

A: Audited UA: Unaudited; Note: these are latest available financial results; NA: not available

**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		-	-	-	27.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	123.00	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 - ST-Letter of credit	ST	123.00	CARE A4				
2	Fund-based - LT-Cash Credit	LT	27.00	CARE BB-; Stable				

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:

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### Disclaimer:

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