Shree Ram Vessel Scrap Private Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	220.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	4.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at ratings of Shree Ram Vessel Scrap Private Limited (SRVSPL), CARE Ratings Limited (CARE Ratings) has considered the combined financial and business risk profiles of four ship-breaking entities including SRVSPL, Shree Ram Green Ship Recycling Industries (Unit-II) LLP (SRGSRIL; rated 'CARE BBB; Stable/ CARE A3+'), R. K. Industries (Unit-II) LLP (RKLLP; rated 'CARE BBB; Stable/ CARE A3+') and Shree Ram Shipping Industries Private Limited (SRSIPL; rated 'CARE BBB; Stable/ CARE A3+'). The entities together are referred to Shree Ram Group (SRG).

All four entities are promoted by the same promoter group, engaged in the similar business, and have financial linkages in the form of cross corporate guarantees.

Ratings assigned to bank facilities of SRG continue to derive strength from the extensive experience of its promoters in the ship-breaking industry, its presence at the Alang-Sosiya region which is one of the largest ship-breaking yards of the world and certifications for green recycling. Ratings also take cognisance of the group's moderate financial risk profile, adequate liquidity and a comfortable LC coverage ratio. Ratings also take cognisance of a decline in the group's scale of operations with moderation in profitability in FY24, owing to a subdued industry scenario, though this remained at a moderate level.

However, ratings continue to remain constrained considering significant exposure to group companies, susceptibility to the adverse movement in steel prices and forex rates, the group's presence in the cyclical ship-breaking industry and exposure to regulatory and environmental hazards risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial growth and stability in total operating income (TOI) while maintaining profit before interest lease rentals depreciation and tax (PBILDT) margin of over 15% on a sustained basis.
- Improvement in the letter of credit (LC) coverage ratio of SRG beyond 1.50x on a sustained basis.

Negative factors

- Decline in SRG's TOI below ₹200 crore with further major moderation in PBILDT margin from existing level on a sustained basis.
- Deterioration in SRG's LC coverage ratio below 1.15 time on a sustained basis.
- Major diversion of funds to non-core business operation, impacting the group's liquidity profile.

Analytical approach: Combined

For arriving at the credit rating, CARE Ratings has combined the financial risk profile of SRSIPL, SRVSPL, SRGSRIL and RKLLP (together referred to Shree Ram Ship breaking Group [SRG]). All the four entities are promoted by common promoters and are engaged in a similar business of ship breaking industry and has financial linkages in the form of extension of cross guarantees.

Outlook: Stable

Stable outlook reflects the entity is likely to sustain its stable business and financial risk profile due to strong competitive advantages and dominant market position.

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

Detailed description of key rating drivers:

Key strengths

Experienced promoter group
SRG is promoted by Mumbai-based Patel family. The group's key promoter, Mukesh Patel, has been associated with ship-breaking industry for over three decades and is supported by the family's second generation's members including Bhavya Patel and Jinay Patel. SRG is one of the oldest and prominent groups in the ship breaking industry in the Alang - Bhavnagar region.
Till November 30, 2024, SRG has recycled over 300 ships with capacity ranging from 10,000 light deadweight tonnage (LDT) to very large crude carriers (VLCC) of ~24,000 LDT, and huge aircraft vessels of Indian and French Government.

Location at Alang-sosiya region which has unique geographical features suitable for ship-breaking operations
SRG's ship-breaking yards are at the Alang-Sosiya belt which is one of the world's largest ship-breaking yards and caters ~90% of India's ship-breaking activity. The area's unique geographical features 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 in high tide. It accommodates ~170 plots spread ~10 km long stretch along the seacoast of Alang. The four plots in the group, RKLLP owns one of the largest sized plots in the yard stretching 120 meters (V-7) while other entities under SRG also own sizable plots. Multiple yards with different frontage provide flexibility in buying different types/size of ships for recycling.

Backward integration for ship procurement, and IRS Class, NK Class and RINA certifications for yards
SRG's promoters own a stake in NKD Maritime Limited (NKD), a UK-based cash buying company. NKD has been become the forerunner in promoting green recycling and has been associated with multiple ship liners across the globe for recycling high priced and custom assets.
SRG's plots have Indian Register of Shipping (IRS), Registro Italiano Navale (RINA) and Nippon Kaiji Kyokai (NK) class certifications. These agencies 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 granted after an audit per the guidelines laid down by the Hong Kong Convention of the International Maritime Organization (IMO) in 2009. SRG's association with NKD and certifications give the group a competitive advantage in procuring LPG gas containers, and off-shore rigs, among others for processing directly from international ship liners at marginally better prices compared to market rates.

Moderate scale of operations and profitability
Over the years, SRG's TOI remained volatile depending on the ship's availability for cutting and volatility associated with steel scrap prices.
In FY24, SRG registered moderate TOI of ₹533.98 crore (PY: 788.20 crore). The decline in TOI was considering decrease in sales volume due to a subdued ship breaking industry scenario. For 8MFY25, the group has registered sales of ~₹166 crore and for FY25, TOI is expected to be ~₹300-350 crore. However, it is envisaged to improve from FY26 based on expected better availability of ships from CY25 onwards.
Till November 30, 2024, the group has purchased one ship of 16,773 metric tonne (MT) in SRSIPL having total value of ₹70 crore post FY24 end. In RKLLP, the group is expected to dock another ship under negotiation having 50,000 MT weight in FY26 with the ship's total value being ~₹250 crore. As articulated by the management, the group is planning to enter consortium arrangement with other parties for dismantling of assets which will provide additional revenue.
PBILDT margin declined by 332 bps to 4.14% in FY24 owing to volatile steel prices resulting moderation in spread, however, it stood moderate. Margins are expected to remain in the similar range of 4-5% in the near term.

Moderate capital structure and debt coverage indicators
SRG's capital structure improved and remained moderate marked by an overall gearing of 0.72x as on March 31, 2024 (1.40x as on March 31, 2023). The group's overall gearing improved on year-over-year (y-o-y) basis due to decline in the total debt majority which was letter of credit borrowings, and accretion of profits to reserves with a comfortable tangible net worth of ₹498.59 crore as on March 31, 2024 (₹429.45 crore as on March 31, 2023).
SRG largely utilises the non-fund-based limits (primarily letter of credit) which requires margin to be kept in terms of fixed deposits. It also holds free FDs. Thus, on a net debt basis (total debt after netting off lien marked FDs and free cash and bank balance / FDs), the group remained debt free as on March 31, 2024.
Debt coverage indicators, though deteriorated owing to a moderation in profitability, stood moderate marked by PBILDT interest coverage ratio of 1.71x in FY24 (FY23: 4.14x) and total debt to gross cash accruals (TD/GCA) of 8.72x (FY23 end: 8.79x).

Key weaknesses

Exposure to group entities
SRG has provided financial assistance to its group companies which are engaged in unrelated business. Its exposure in the form of equity investment and interest-bearing unsecured loans remains high at ₹208.38 crore as on March 31, 2024 (PY: ₹155.59 crore) and accounted for ~42% of its net worth as on March 31, 2024 (PY end: 36%). Of total exposure of ₹208.38 crore as on March 31, 2024, ₹134.26 crore (PY end: ₹136.11 crore) belongs to Ramaranjan Developers Private Limited (RDPL; engaged in

the real estate business). However, this reduced to ₹116.10 crore as on November 30, 2024, and expected to reduce to an extent due to monetisation of inventory of its completed project.
Another amount of ₹41.75 crore was given as loans and advances to promoters by SRGSRIL as on March 31, 2024 However, this was also recovered by November 30, 2024. Remaining balance of ₹32.37 crore pertains to investment in Neuron Biotech Inc, USA and NKD Maritime U.K.
Further significant exposure to related parties from SRG group will remain crucial from credit perspective.

Exposure to adverse movement in steel prices and forex rates
Steel prices are volatile and are driven by the demand and supply conditions in the global and local markets. These factors expose SRG to adverse price movement on the uncut ship inventory (which depends on the time elapsed since the ship's purchase and the ship's size/tonnage) and unsold inventory of steel scrap held by the firm (which is generally minimal). The group uses LC facility to purchase old ships. Since the transactions are denominated in foreign currency, the group is exposed to the foreign exchange fluctuation risk as the group's revenue is denominated in Indian Rupee (INR) with no major hedging policy in place.

Presence in the cyclical and competitive industry
The ship breaking industry is cyclical 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. 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.

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 shipbreakers for their labourers and environmental compliance. Government of India had also enacted the Recycling of Ships Act, 2019 ("Act"). The preamble of this Act mentions the regulation of recycling of ships by setting certain standards and laying down statutory mechanism for enforcement of such standards and related matters. Thus, if adverse circumstances or event may affect business operations of entities.

Liquidity: Adequate
The group has adequate liquidity marked by adequate LC coverage, moderate utilisation of working capital limits, sufficient GCA against negligible debt repayment obligations. On a combined basis, the average fund-based and non-fund based working capital utilisation for the last 12 months ended November 30, 2024, stood moderate in the range of 60-75%. SRG has a GCA of ₹33.50 crore in FY24 against negligible debt repayment obligation of ₹0.13 crore in FY24. The group has cash and bank (including lien marked FD against LC) of ₹366.18 crore as on March 31, 2024.
As on March 31, 2024, the group has current ratio of 1.88x (PY end: 1.13x), whereas quick ratio of 1.30x (PY end: 0.60x) reflecting significant proportion of inventory in current assets. Operating cycle remained negative at 52 days in FY24 (PY: negative 58 days). Ship-breaking entities generally park their sale proceeds in fixed deposits (FDs) 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 group's LC coverage ratio remained comfortable at 1.74x as on FY24 end (PY: 1.46x) and at 2.12 as on November 30, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Consolidation
Financial Ratios – Non financial Sector
Wholesale Trading
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

Shree Ram Group of Bhavnagar (Gujarat) was established in 1992, and promoted by Mukesh Patel. It is one of the oldest and largest ship breaking units at Alang port, Gujarat. There are four entities under SRG that are involved in ship breaking business including Shree Ram Shipping Industries Private Limited (SRSIPL), Shree Ram Vessel Scrap Private Limited (SRVSPL), Shree Ram Green Ship Recycling Industires (Unit-II) LLP (SRGSRIL) and R.K. Industries LLP (RKLLP). The ship recycling facilities of all four entities are carried out at the premises leased out by Gujarat Maritime Board (GMB) in Alang, Bhavnagar.

Combined – SRG Group

Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	8MFY25 (Prov.)
Total operating income	788.20	533.98	166.00
PBILDT	58.79	22.11	NA
PAT	67.53	32.69	NA
Overall gearing (times)	1.40	0.72	NA
Interest coverage (times)	4.14	1.71	NA

UA: Unaudited since audited standalone financials of each entity are combined by Care Ratings Limited, Prov.: Provisional NA: Not Available
Note: these are latest available financial results

Standalone- SRVSPL

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (Prov.)
Total operating income	283.11	164.06	113.33
PBILDT	3.78	7.19	NA
PAT	14.52	10.23	NA
Overall gearing (times)	0.56	0.16	NA
Interest coverage (times)	1.03	1.28	NA

A: Audited Prov.: Provisional; NA: Not Available Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork placed ratings of SRVSPL under non-cooperation category due to non-submission of requisite information by the company vide its press release dated March 12, 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	220.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	4.00	CARE A3+

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	220.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (07-Mar-24) 2)CARE BBB; Stable / CARE A3+ (03-Apr-23)	-	-
2	Non-fund-based - ST-Forward Contract	ST	4.00	CARE A3+	-	1)CARE A3+ (07-Mar-24) 2)CARE A3+ (03-Apr-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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
2	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view 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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