

## Apollo Vikas Steels Private Limited

January 17, 2025

| Facilities/Instruments                 | Amount (₹ crore) | Rating <sup>1</sup>      | Rating Action  |
|--|------------------|--------------------------|--|
| Long Term / Short Term Bank Facilities | 50.00            | CARE B; Stable / CARE A4 | LT rating downgraded from CARE B+; Stable and ST rating reaffirmed |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

While arriving at the ratings, CARE Ratings Limited (CARE Ratings) has combined the financial risk profiles of Apollo Vikas Steels Private Limited (AVSPL) and Saibaba Ship Breaking Corporation (SSBC), together referred to as the Group, due to significant operational, managerial and financial linkages between them.

The rating action reflects the sharp moderation in the operating and financial performances of the Group coupled with net losses incurred in FY24 and continued uncertainty on the ability of the company to generate adequate cash flow from operation. The total operating income (TOI) of the group declined to Rs. 2.44 crores in FY24 as compared to Rs. 49.73 crores in FY23 owing to industry-wide headwinds due to muted demand for shipbreaking on account of steep rise in ocean freight charges. The trend continued in H1 FY25 with TOI of Rs. 0.55 crores. The ratings are further tempered by the levered capital structure with stretched debt coverage indicators, volatility in raw material prices, cyclical and competitive nature of the industry, constitution of SSBC being a partnership firm and exposure to regulatory and environment hazard risk. The ratings, however, continue to derive strength from the experienced promotor group, favourable location suitable for ship breaking business.

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

#### Positive factors

- Substantial improvement in scale of operations above Rs. 50 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 2% on sustained basis.

#### Negative factors

- Delay in profitable ramp up of operations translating into positive cash flow from operations
- Deterioration of financial risk profile and stretched working capital cycle on combined basis.

#### Analytical approach: Combined approach

CARE Ratings has combined the business and financial risk profiles of SSBC and AVSPL, collectively referred to as the Apollo Vikas Group (AVG), owing to substantial operational, financial and managerial linkages.

#### Outlook: Stable

Stable outlook reflects that the group will continue to benefit from the experience of the promoters.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Decline in revenue and net losses incurred in FY24, likely to continue in FY25:

Over the years, AVG's scale of operations remained moderate and volatile as per availability of ships and volatility associated with steel prices. During FY24, the group has reported sharp decline with total operating income (TOI) of Rs.2.44 crore due to adverse market conditions partly due to a steep decline in metal prices and less supply of old ships owing to global supply chain bottlenecks. Furthermore, in current year, the group reported sales of ~ Rs. 0.55 crore till September 30, 2024. The profitability margins of the group remained adversely impacted due to trading nature of its operations and on account subdued demand and weak absorption of fixed cost. The muted revenue and net loss is expected to continue in FY25.

##### Leveraged capital structure with moderate debt coverage indicators:

The Group's capital structure was moderate with overall gearing of 1.95x as on March 31, 2024, which was around 1.29x as on March 31, 2023. Outstanding debt was on account of unsecured loan from its promoters and loan against stock hypothecation. Net worth stood modest at Rs. 12.91 crore as on March 31, 2024, as compared to Rs. 15.81 crores in FY23 this deterioration is due to net loss incurred by the company. CARE Rating expects the net worth to be adversely impacted due to the continued net

<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.

losses in medium term. Debt coverage indicators were also adversely impacted due to negative PBILDT in FY24 interest coverage ratio stood at -0.35 times in FY24 as compared to 2.11 times in FY23.

**Partnership nature of constitution:**

SSBC's 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.

**Exposure to volatility in steel/scrap prices, regulatory and environment hazard risk:**

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes the group 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 ship-breaking 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 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.

**Cyclical nature associated with ship breaking 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. Indian ship recycling yard face intense competition from the neighbour countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations.

**Key strengths****Experience of promoters:**

Benefits from the promoters' experience of above three decades, their strong understanding of the local market dynamics, and healthy relations with customers and suppliers should continue to support the business.

**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.

The group 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 June 22, 2024, for AVSPL which is under process of renewal and till August 22, 2025 for SSBC, subject to continued compliance with related guidelines and periodical audits.

**Liquidity: Stretched**

The group has stretched liquidity marked by negligible free cash balance and Rs. 5.86 crore of lien marked FDs as on March 31, 2024. Also, the group has negative cash flow from operations of Rs. -0.80 crore in FY24. However, AVG had no outstanding term loan as on date and the group's LC facility has remained fully unutilized for the last 12 months ended December 31, 2024, as confirmed by the banker.

**Environment, social, and governance (ESG) risks: Not Applicable**

## Applicable criteria

[Consolidation](#)

[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     |
|-------------------------|-----------------|--------------------|--------------------|
| Commodities             | Metals & Mining | Diversified Metals | Diversified Metals |

The Apollo Vikas group is in the business of ship breaking and owns two plots at the Alang Port (Gujarat). The group has a track record of over 25 years in the shipbreaking business. Saibaba Ship Breaking Corporation (SSBC) is a partnership firm and has ship-breaking capacity at Alang, Gujarat. Apollo Vikas Steels Private Limited (AVSPL), was incorporated in year 1982 in Bhavnagar. The company has its registered office and a plot at Alang port, Bhavnagar, Gujarat. The business operation of AVSPL is managed by Mr. Vinod Rai Patel along with other directors.

### Combined Financials:

| Brief Financials (₹ crore) | March 31, 2023 (UA) | March 31, 2024 (UA) | H1 FY25 (UA) |
|----------------------------|---------------------|---------------------|--------------|
| Total operating income     | 49.73               | 2.44                | 0.55         |
| PBILDT                     | 3.98                | -0.80               | 0.22         |
| PAT                        | 2.18                | -1.38               | -0.01        |
| Overall gearing (times)    | 1.29                | 1.95                | NA           |
| Interest coverage (times)  | 2.11                | -0.35               | 0.96         |

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

### Standalone Financials:

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1 FY25 (UA) |
|----------------------------|--------------------|--------------------|--------------|
| Total operating income     | 25.77              | 1.89               | 0.55         |
| PBILDT                     | 1.97               | -0.48              | 0.25         |
| PAT                        | 0.98               | -1.46              | 0.09         |
| Overall gearing (times)    | 1.74               | 2.95               | NA           |
| Interest coverage (times)  | 1.57               | -0.33              | 1.56         |

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

**Status of non-cooperation with previous CRA:** Brickworks Ratings has conducted the review on the basis of best available information and has classified Apollo Vikas Steels Private Limited as "Not cooperating" vide its press release dated October 18, 2024, the reason provided by Brickworks is non-furnishing of requisite information for monitoring of ratings.

CRISIL Ratings has conducted the review on the basis of best available information and has classified Apollo Vikas Steels Private Limited as "Not cooperating" vide its press release dated May 16, 2024, the reason provided by CRISIL is non-furnishing of requisite information for monitoring of ratings.

**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/ST       |      | -                             | -               | -                          | 50.00                       | CARE B; 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-LT/ST                       | LT/ST           | 50.00                        | CARE B; Stable / CARE A4 | -   | 1)CARE B+; Stable / CARE A4 (07-Mar-24)     | 1)CARE BB-; Stable / CARE A4 (01-Mar-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-LT/ST       | Simple           |

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of entities consolidated**

| Sr No | Name of the entity                | Extent of consolidation | Rationale for consolidation                                      |
|-------|-----------------------------------|-------------------------|--|
| 1     | Saibaba Ship Breaking Corporation | Full consolidation      | Similar line of business with operational and financial linkages |

**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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