June 25, 2021

Dalkan Ship Breaking Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit^	(5.00)	(5.00)	[ICRA]BB (Stable); Reaffirmed
Letter of Credit	50.00	50.00	[ICRA]A4+; Reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1; ^ Sub-limit of letter of credit*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the financials of Dalkan Ship Breaking Ltd. (DSBL), Paras Steel Corporation (PSC) and Vijaykumar And Co. (VAC) (referred to as the 'Group') as they have common promoters and financial fungibility among them. The ratings reaffirmation continues to positively factor in the extensive experience of the promoters along with their funding support to the Group; the strong presence of the Bhupatrai Chimanlal Group in the ship breaking and metal industries; and the Group's safe and environment-friendly facilities in accordance with the Hong Kong Convention.

The ratings, however, are constrained by the Group's average financial risk profile, marked by a low profit margin, a leveraged capital structure and below-average debt protection metrics. The ratings further factor in the vulnerability of the Group's profitability to fluctuations in steel scrap prices and foreign currency exchange rates along with the exposure of its revenues to the cyclicality inherent in the ship-breaking industry. ICRA notes that the Group is exposed to intense competition from a large number of players operating in Alang, Gujarat and other regions in India, along with the pressure exerted by international competitors.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters and their funding support, and its long track record of operations in the ship-breaking industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and their funding support; established industry presence of the Group - The Bhupatrai Chimanlal Group started ship breaking from 1985 and enjoys an influential presence in the ship-breaking industry. In addition, the Group has a diversified presence across industries such as steel, ship recycling, shipbuilding, textiles, mining and solar, and oxygen plant, among others. The promoters/related parties and other Group companies have also consistently provided their funding support to the companies in the form of unsecured loans and through lien marking their fixed deposits against the bank facilities of the Group (DSBL, PSC and VAC), to support the business.

Green recycling yards - The facilities of all the three companies of the Group i.e., DSBL, PSC and VAC, are safe and environment-friendly ones in accordance with the International Maritime Organisation's Hong Kong Convention, thereby supporting the ship procurement capabilities and the Group's profit margins. The conversion is in accordance with the Recycling of Ships Bill, 2019, passed in December 2019 in India.

Credit challenges

Average financial risk profile - The Group's financial risk profile is average, marked by small net worth base and leveraged capital structure, with a gearing of 4.96 times as on March 31, 2021 (provisional financials); though, the gearing improved from 5.62 times as on March 31, 2020. Also, the debt coverage indicators are below-average with an interest coverage of 1.00 times and TD/OPBDITA of 10.40 times in FY2021. However, ~64% of the Group's debt (Rs. 46.74 crore) as on March 31, 2021, comprised unsecured loans from the promoters/related parties, signifying strong funding support from the promoter Group.

Vulnerability of profitability to fluctuations in foreign currency exchange rate and steel prices - Since the ships are procured from the international market in US dollar terms against a letter of credit, which has a fixed maturity of ~120-180 days, the Group's profitability is exposed to fluctuations in foreign currency exchange rates. The profitability also remains vulnerable to any fluctuation in steel or scrap prices, given the time lag between ship procurement and the sale of scrap. The revenues and profitability are also exposed to the intense competition in the ship-breaking industry.

Revenues and profitability exposed to cyclicality inherent in industry and regulatory issues - Ship procurement depends on current trends in the ship-breaking industry along with the international economic situation, which affect the Group's revenues and thus its profit margins. Further, the Group is also exposed to regulatory risks, primarily due to environment and human rights-related issues.

Liquidity position: Stretched

The Group's liquidity position remains stretched, marked by low annual cash accruals, weak coverage indicators and high average cash credit limits utilisation of ~88% for the 18-month period from October 2019 to March 2021. Notwithstanding this, the Group's LC repayment obligations stood low at Rs. 5.17 crore as on March 31, 2021 due to low ship procurement in FY2021. Further, the Group's liquidity profile derives comfort from the regular funding support from the promoter Group (promoters/family members). As on March 31, 2021, most of the debt (~64%) comprised unsecured loans from the promoters/related parties.

Rating sensitivities

Positive factors:

- Significant scale up of operations coupled with sustenance of higher margins, leading to improvement in financial risk profile
- Strengthening of net-worth base

Negative factors:

- Lower-than-anticipated cash accruals for servicing maturing LCs resulting from the delay in liquidation of inventory at favorable prices
- Significant capital withdrawals or stretch in working capital cycle impacting the financial risk profile

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Dalkan Ship Breaking Ltd., Paras Steel Corporation and Vijaykumar And Co. (as mentioned in Annexure-2) given the close financial and managerial links between them.

About the company

DSBL was incorporated in 1994 to carry out ship recycling activities. Currently, the company operates from the Alang Ship Breaking Yard in Bhavnagar, Gujarat. DSBL is part of the Bhupatrai Chimanlal Group, which started its business in 1970 with its flagship company, Mono Plast, and began ship breaking activities from 1985. At present, the Group enjoys a diversified presence across various industries like ship recycling, shipbuilding, steel, textiles, mining and solar, among others. The Group companies include Paras Steel Corporation (engaged in ship breaking), Vijaykumar And Co. (engaged in ship breaking), Mono Steel India Limited (engaged in manufacturing sponge iron, MS billets and TMT bars), and Jay Bharat Steel Corporation (engaged in manufacturing MS billets), etc.

Key financial indicators

DSBL Standalone	FY2020	FY2021 Provisionals
Operating Income (Rs. crore)	24.89	34.76
PAT (Rs. crore)	0.10	0.17*
OPBDIT/OI (%)	3.72%	7.42%
RoCE (%)	5.28%	8.91%
Total Outside Liabilities/Tangible Net Worth (times)	8.59	3.32
Total Debt/OPBDIT (times)	28.14	7.09
Interest Coverage (times)	0.72	1.00
DSCR (times)	1.08	1.07

Consolidated (DSBL, PSC and VAC)	FY2020	FY2021 Provisionals
Operating Income (Rs. crore)	107.95	108.38
PAT (Rs. crore)	0.42	0.39*
OPBDIT/OI (%)	5.69%	6.46%
RoCE (%)	8.63%	8.12%
Total Outside Liabilities/Tangible Net Worth (times)	12.72	5.49
Total Debt/OPBDIT (times)	13.01	10.40
Interest Coverage (times)	0.91	1.00
DSCR (times)	1.07	1.07

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year). * profit before tax for Dalkan Ship Breaking Ltd.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					June 25, 2021	-	Mar 13, 2020	Oct 25, 2019	Jul 10, 2018
1	Cash Credit	Long-term	(5.00)	-	**[ICRA]BB (Stable)**	**-**	**[ICRA]BB (Stable)**	**[ICRA]B+(Stable) ISSUER NOT COOPERATING**	**[ICRA]BB+ (Stable)**
2	Letter of Credit	Short-term	50.00	-	**[ICRA]A4+**	**-**	**[ICRA]A4+**	**[ICRA]A4 ISSUER NOT COOPERATING**	**[ICRA]A4+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	(5.00)	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	50.00	[ICRA]A4+

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Paras Steel Corporation	-	Full Consolidation
Vijaykumar And Co.	-	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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