



Press Release

Shanti Ship Breakers Private Limited

October 29, 2024

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|----------------------------|--------------------|---|------------------|---------------|------------------------|
| Long Term Bank Facilities | 33.50 | IVR BB/Stable Outlook (IVR Double B with Stable Outlook) | - | Assigned | Simple |
| Short Term Bank Facilities | 136.50 | IVR A4 (IVR A Four) | - | Assigned | Simple |
| Total | 170.00 | Rupees One Hundred Seventy Crore Only | | | |

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVRPL) has assigned its rating for long term facility as IVR BB with stable outlook and short-term rating as IVR A4 for the bank facilities of Shanti Ship Breakers Private Limited.

The rating draws comfort from its extensive experience of its promoters in ship recycling industry and favourable location of ship-breaking yard. However, these strengths are partially offset by cyclic and competitive industry, vulnerability to regulatory changes and environment hazard risk, and exposure to foreign currency fluctuation risk.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes that Shanti Ship Breakers Private Limited will continue to benefit from the extensive experience of its promoters and favourable location of ship-breaking yard.

IVRPL has principally relied on the audited financial results of Shanti Ship Breakers Private Limited up to 31 March 2023 and FY2024 (i.e. review period from 1st April 2023 to 31st March 2024), and projected financials for FY25, FY26 and FY27, along with publicly available information/ clarifications provided by the company's management.



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Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics.
- Improvement in the debt protection metrics & Capital Structure.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Deterioration in capital structure with moderation in overall gearing above 2x.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of promoters in ship recycling industry

Shanti Ship Breakers Private Limited's is promoted by Mr. Honey Rajkumar Bansal, who has 10 years of experience in the ship-breaking industry. The promoters are well-acquainted with market pricing and have established connections with ship suppliers that allow them to acquire ships at competitive rates based on market conditions.

Favourable Location of Ship-breaking Yard

The company's operations are based in Alang, Gujarat, which is one of the world's largest ship-breaking areas that constitutes almost 90% of India's ship-breaking activity. This location advantage high tidal range, a wide continental shelf, an adequate slope, and a mudfree coast, making it ideal for a wide variety of ships to be beached easily during a high tide.

Key Rating Weaknesses

Cyclical and competitive industry

The ship-breaking industry is inherently cyclical, and its performance is closely linked to the international freight index. When the freight index is low, revenues from shipping decrease, making it more profitable to dispose of old ships, thus benefiting the ship-breaking industry. On the other hand, when the freight index is high, the cost of old ships rises, making ship-



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breaking less economically viable. Consequently, the industry's profitability fluctuates based on the current market conditions, including the prices of old ships and steel scrap.

Vulnerability to Regulatory Changes and Environment Hazard Risk

Ship breaking industry faces significant risks due to stringent government regulations, including higher import and excise duties compared to neighbouring countries, which intensifies competition from shipbreakers in Bangladesh, China, and Pakistan. Further, the shipbreaking industry is subject to strict pollution control regulations due to the hazardous materials found in ships, such as asbestos, lead, and various acids and chemicals. Historically, India has banned the entry of certain ships with high asbestos content, which has affected the shipbreaking business.

Exposure to foreign currency fluctuation risk

The company uses Letter of Credit (LC) to purchase old ships. Since the transactions are denominated in foreign currency, the company is exposed to forex risk, as the company's revenue is denominated in Indian Rupee (INR).

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Criteria on assigning rating outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Complexity Level of Rated Instruments/Facilities](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

Liquidity: Adequate

Bank limit has not been utilised over the 12 months ended March 31, 2024. The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company's liquidity position is adequate, supported by cash and bank balances of Rs. 1.09 crore as on March 31, 2024. The Company generated net cash accruals of Rs. 0.43 crore for FY2024 suffice to cover the term debt obligation of Rs 0.15 crore for the same period. The cash accruals of the Company are estimated to remain in the range of around Rs. 4.52 Crore to Rs. 5.14 Crore during FY 2025-27. Additionally, the company procures ships for dismantling



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against Letter of Credit (LCs) with maturity depending upon the size/weight of the ship. The company builds fixed deposits on a daily basis, which ensures adequate liquidity. The partners also extend support via equity and unsecured loans as and when needed to meet the working capital expenses and debt obligation.

About the Company

Shanti Shipbreakers Private Limited, established in 2002, is engaged in the ship recycling industry. The company was allocated Plot No.41 by the Gujarat Maritime Board – Gandhinagar for ship recycling purposes. Over the years, Shanti Shipbreakers has consistently adhered to standards of environmental, managerial, financial, and social welfare practices.

The company is equipped with a state-of-the-art recycling facility that meets international standards, including ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 30000:2009, and HKC certifications. Additionally, it adheres to the IMO Resolution MEPC 210(63) "2012 Guidelines for Safe and Environmentally Sound Ship Recycling," as approved by Nippon Kaiji Kyokai – ClassNK, Japan.

Financials (Standalone):

(Rs. crore)

| For the year ended/ As on* | 31-03-2023 | 31-03-2024 |
|----------------------------|----------------|----------------|
| | Audited | Audited |
| Total Operating Income | 95.78 | 76.77 |
| EBITDA | 2.94 | 1.94 |
| PAT | 0.25 | 0.22 |
| Total Debt | 17.08 | 0.33 |
| Tangible Net Worth | 10.13 | 10.36 |
| EBITDA Margin (%) | 3.07 | 2.52 |
| PAT Margin (%) | 0.26 | 0.29 |
| Overall Gearing Ratio (x) | 1.79 | 0.03 |
| Interest Coverage (x) | 1.06 | 1.01 |

* Classification as per Infomerics' standards.



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Status of non-cooperation with previous CRA: NIL

Any other information: NIL

Rating History for last three years:

| Sr. No. | Name of Security/Facilities | Current Ratings (Year 2024-2025) | | | Rating History for the past 3 years | | |
|---------|-----------------------------|----------------------------------|--------------------------------|---------------|---|---|---|
| | | Type (Long Term/Short Term) | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-2024 | Date(s) & Rating(s) assigned in 2022-2023 | Date(s) & Rating(s) assigned in 2021-2022 |
| 1. | Fund Based | Long Term | 33.50 | IVR BB/Stable | - | - | - |
| 2. | Non-Fund Based | Short Term | 136.50 | IVR A4 | - | - | - |

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

| Name of Facility/ Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--------------------------------|------|---------------------|---------------------|------------------|------------------------------------|--------------------------------|
| Cash Credit | - | - | - | - | 13.50 | IVR BB/Stable |
| Cash Credit - Proposed | - | - | - | - | 20.00 | IVR BB/Stable |
| Letter of Credit | - | - | - | - | 86.50 | IVR A4 |
| Letter of Credit - Proposed | - | - | - | - | 48.27 | IVR A4 |
| Forward Sales Contract | - | - | - | - | 1.73 | IVR A4 |

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-ShantiShip-oct24.pdf>



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Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.