Rating Rationale

Star Ship Breaking Corporation

12July2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 35.00 Crores of Star Ship Breaking Corporation.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (May, 2018)	Present
Fund based	(5.00)	(5.00)	Long Term	**BWR B+** Pronounced as BWR Single B Plus **Outlook:Stable**	**BWR B+** Pronounced as BWR Single B Plus **Reaffirmed Outlook:Stable**
Non Fund Based	35.00	35.00	Short Term	**BWR A4** Pronounced as BWR A Four	**BWR A4** Pronounced as BWR A Four **Reaffirmed**
Total	35.00	35.00	INR Thirty Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited financial results upto FY19, publicly available information and clarifications/information provided by the Partners.

Description of Key Rating Drivers

The rating draws strength from adequate experience of the partners in the line of activity, established track record of the firm, comfortable liquidity position and locational advantages. The ratings are however, constrained by low profitability, inherent risk associated with the partnership constitution, firm's exposure to volatile steel prices and cyclical nature of ship breaking industry. Furthermore, margins vulnerable to forex fluctuations to the extent of unhedged positions. The rating also takes into account that the units situated in Alang – Sosiya belt extensively use "Beaching Method" to recycle the ship. This method is not environment friendly, hence the firm is exposed to international regulations and government regulations.

The ability of the firm to achieve the projections, to improve the profitability, to maintain its working capital efficiently and to improve its overall financial risk profile shall be the key rating sensitivity.

Credit Strengths:

- Adequate experience of the directors in the line of activity.
- Established track record in the business as the firm is active since 1998.
- The firm has comfortable leverage structure in FY19. This is mainly due to absence of debt funded capital expenditure and low working capital utilization. Gearing remains low as the firm is free of long term borrowings and has nil outstanding short term borrowings in FY19. .
- Located in Alang – Sosiya Ship Breaking yard, which has more than 90% share in the Ship Breaking Industry.

Credit Risks:

- The firm has low profitability reflected by NPM at 0.75% and OPM at 2.30% in FY19. Further, the margins vulnerable to forex fluctuations to the extent of unhedged positions,volatile steel prices and cyclical nature of ship breaking industry
- Companies situated in Alang – Sosiya belt extensively use "Beaching Method" to recycle the ship. This method is not environment friendly, hence the company is exposed to international regulations and government regulations.
- The firm faces intense competition coming from international and local players.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook:Stable

BWR believes the **Star Ship Breaking Corporation** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Star Ship Breaking Corporation was established in 1998 as a partnership firm with its registered office in Bhavnagar. The firm is managed by its partners, Mr. Kashidbhai Haroonbhai Dholia and Mr. Imran Arifbhai Lakhani. The firm is engaged in the business of ship-breaking and ship recycling activity through allotted plot (Plot no. 130) at Alang Shipyard by Gujarat Maritime Board (GMB). The firm purchases ships directly from ship owners or through sales agents for recycling them. Items like electrical equipment, machine parts, etc. are sold directly to end users. While scrap is sold in the market to scrap traders and manufacturing units, who use the scrap to produce steel.

Company Financial Performance

Total operating income is moderately low at Rs.26.26 Cr in FY19 decreased from Rs.32.38 Cr in FY18. SSBC has negligible total outstanding liability as on 31st March 2019 against TNW at Rs.4.78 Cr in

FY19.

Rating History for the last three years

S.No	Instrument/Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	May, 2018	2017	2016
1.	**Fund Based**	Long Term	(5.00)	**BWR B+** Pronounced as BWR Single B Plus **Reaffirmed Outlook:Stable**	**BWR B+** Pronounced as BWR Single B Plus **Outlook:Stable**	**NA**	**NA**
2.	**Non Fund Based**	Short Term	35.00	**BWR A4** Pronounced as BWR A Four **Reaffirmed**	**BWR A4** Pronounced as BWR A Four		
	Total		**35.00**	**₹ Thirty Five Crores Only**			

Status of non-cooperation with previous CRA- CARE on 19 June 2019 has reaffirmed the rating of Star Ship Breaking Corporation to CARE B/Stable & CARE A4 (Issuer not cooperating; Based on best available information).

Key Financial Indicators

Key Parameters	Units	2019	2018
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	26.26	32.38
EBITDA	₹ Cr	0.60	1.04
PAT	₹ Cr	0.20	0.37
Tangible Net worth	₹ Cr	4.78	4.53
Total Debt/Tangible Net worth	Times	0.00	1.44

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios

- **Infrastructure Sector**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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For print and digital media
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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings
Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.