

Press Release

Ghasiram Gokalchand Ship Breaking Yard

December 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.150.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Pls note: In the Press Release of Ghasiram Gokalchand Ship Breaking Yard published on September 19, 2018, the 'ROCE', 'Total Debt/Tangible Net Worth' and 'Total Debt/PBDIT' ratios in the 'Key Financials Table' were incorrect. The corrected one is incorporated in this press release.

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.150.00 crore bank facilities of Ghasiram Gokalchand Ship Breaking Yard (GGSBY). The outlook is '**Stable**'.

Ghasiram Gokalchand Ship Breaking Yard (GGSBY) is a partnership firm established in 1984. Mr. Vishnu Kumar Gupta and Mrs. Priyanka Gupta are the partners of the firm. The firm has its registered office in Mumbai and is engaged in the business of ship breaking and factory dismantling. GGSBY has the 3,150 square metre Ship Breaking Yard located at Alang in Bhavnagar (Gujarat).

The firm has recently started factory dismantling and has won the bid for dismantling a power plant of Gujarat State Electricity Corporation Limited in 2018.

Analytical Approach

To arrive at the rating, Acuite has consolidated business and financial risk profiles of Ghasiram Gokalchand Ship Breaking Yard (GGSBY) and Ashwin Corporation (AC) hereinafter referred to as Ghasiram Group. The consolidation is on account of similarity in the line of business, common management, strong operational and financial linkages.

Key Rating Drivers

Strengths

- Established presence in the industry**

The Ghasiram group was established in 1984 and has an established presence of over three decades in the ship breaking industry. The promoter Mr. Vishnu Kumar Gupta has more than three decades of experience in the ship breaking industry. The promoter is well versed with price dynamics of ship breaking industry and has developed healthy relations with various ship aggregators which helps in buying ships at competitive rates depending on the market scenario and also with various scrap dealers in the local market. The group has successfully dismantled more than 75 Ships till date.

- Efficient risk management practices**

The group purchases a Ship which is backed by Letter of Credit which keeps liquidating in tranches from 60 days to 360 days. The LC payment is done through sales proceeds from selling the scrap which starts from first month whereas first tranche of LC becomes due in 60- 90 days.

- Moderate financial risk profile**

The group is having moderate financial risk profile marked by tangible net worth of Rs.33.79 crore as on 31 March 2018 (Provisional) as against Rs.28.96 crore in FY2017. The gearing stood high at 2.21 times as on 31 March 2018 (Provisional) as against 0.32 times in FY2017. The gearing deterioration is mainly on account of loans availed for purchase of the power plant. The total debt of Rs.74.70 crore as on 31 March 2018 (Provisional) consists of unsecured loan of Rs.23.52 crore and working capital limits of Rs.51.18 crore. The coverage indicators stood healthy with interest coverage ratio of 4.17 times in FY2018 (Provisional). The Total Outside Liability to Total Net Worth (TOL/TNW) stood at 3.05 times as on 31 March, 2018 (Provisional) as against 1.76 times as on 31 March 2017.

Weaknesses

- **Working capital intensive operations**

The Gross Current Asset (GCA) stood high at 602 days in FY2018 (Provisional) on account of higher inventory holding period of 496 days as on 31 March, 2018 (Provisional). The ships and power plant purchased in the end of the year are the reason for an increase in the inventory days in the year end. Acuite believes being into shipping industry the operations of the group will remain working capital intensive as high inventory holding period is inherent in this industry.

- **Exposed to cyclical in the industry, volatility in the steel scrap prices and forex rates and intense competition**

The group is exposed to inherent cyclical in the economic cycles which could affect both ship acquisition cost and realisation from scrap. The group is exposed to volatility in the forex rates for unhedged portion of the LC.

The ship-breaking industry is characterised by volatile steel prices. The volatility in steel prices exposes the group to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap. The group also faces increased competition from the ship breaking yards of neighboring countries such as China, Bangladesh and Pakistan.

- **Exposure to environmental regulatory risk**

Stringent environmental regulations may adversely impact the ship-breaking industry, thereby impacting the revenue growth of the group.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook in the medium term on account of the management's extensive experience in the ship breaking business. The outlook may be revised to 'Positive' in case of higher than expected increase in revenues and operating margins while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or stretched liquidity position on account of any adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates.

About the Group

Ashwin Corporation (AC) is a partnership firm established in 1989. Mr. Vishnu Kumar Gupta and Mrs. Kusum Gupta are the partners of the firm. The firm has its registered office in Mumbai and is engaged in the business of ship breaking. AC has the 1,440 square metre Ship Breaking Yard located at Alang in Bhavnagar (Gujarat).

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	70.08	60.66	49.23
EBITDA	Rs. Cr.	4.76	2.21	1.72
PAT	Rs. Cr.	4.34	1.93	1.85
EBITDA Margin	(%)	6.80	3.64	3.49
PAT Margin	(%)	6.20	3.18	3.76
ROCE	(%)	11.90	11.89	12.01
Total Debt/Tangible Net Worth	Times	2.21	0.32	0.27
PBDIT/Interest	Times	4.17	3.34	3.70
Total Debt/PBDIT	Times	8.09	1.89	1.65
Gross Current Assets (Days)	Days	602	357	175

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit #	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/Stable
Letter of Credit ##	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3

Fully interchangeable with Letter of Credit facility

##Contains sublimit of Bank Guarantee to the extent of Rs.10.00 crore and WCDL to the extent of Rs.54.70 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294022 avadhoot.mane@acuiteinratings.in	

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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