

Press Release
Ghasiram Gokalchand Ship Breaking Yard

November 20, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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 cr. 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).

Analytical Approach

To arrive at the rating, Acuité 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. Extent of consolidation: Full

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.

Acuité believes that the group will continue to benefit from the promoter's established presence in the ship breaking industry over the medium term.

• Efficient risk management practices

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

Acuité believes that group's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

• Healthy financial risk profile

The group has healthy financial risk profile marked by moderate net worth, healthy gearing and healthy debt protection matrices. The net worth of the group stood at Rs.37.85 crore as on 31 March 2019 as against Rs.33.56 crore as on 31 March 2018. The increase in net worth was mainly on account of retention capital by the partners. The gearing improved to 0.32 times as on 31 March 2019 from 2.01 times as on 31 March 2018 mainly on account of repayment of the working capital loan taken for acquiring power plant. Total debt of Rs.12.24 crore as on 31 March 2019 mainly consists of term loan of Rs.0.58 crore, unsecured loans of Rs.1.20 crore and working capital borrowings of Rs.10.46 crore. The debt protection matrices stood comfortable with interest coverage ratio of 3.10 times for FY2019 as against

3.77 times for FY2018. Total outside Liability to Tangible Net Worth (TOL/TNW) stood at 0.95 times as on 31 March 2019 as against 3.04 times as on 31 March 2018.

Weaknesses

- **Working capital intensive operations**

The Gross Current Asset (GCA) improved albeit stood high at 164 days in FY2019 on account of higher inventory holding period of 120 days FY2019. The ships and power plant purchased in the year are the reason for high inventory days in the year-end. Acuité 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 cyclicalities in the industry, volatility in the steel scrap prices and forex rates and intense competition**

The group is exposed to inherent cyclicalities 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.

Liquidity position: Adequate

The group has adequate liquidity position marked by efficient cash flow management for retirement of LC. The group keeps adequate fixed deposits with banks against the LC outstanding, which provides additional comfort. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term but will be highly dependent on the sale of scrap as per the LC retirement cycle.

Rating Sensitivities

- Adequate sales proceeds from dismantling of ships for timely liquidation of LCs
- Adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates

Material Covenants

None

Outlook: Stable

Acuité 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

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	124.85	72.89	60.66
EBITDA	Rs. Cr.	8.35	7.50	2.68
PAT	Rs. Cr.	3.80	4.11	1.93
EBITDA Margin (%)	(%)	6.69	10.29	4.42
PAT Margin (%)	(%)	3.05	5.63	3.18
ROCE (%)	(%)	11.76	12.48	13.19
Total Debt/Tangible Net Worth	Times	0.32	2.01	0.32
PBDIT/Interest	Times	3.10	3.77	2.77
Total Debt/PBDIT	Times	1.29	7.34	1.72
Gross Current Assets (Days)	Days	164	573	357

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>
- Trading Entities - <http://acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Sep-18^	Cash Credit#	Long term	60.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit##	Short Term	40.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	50.00	ACUITE A3 (Assigned)

^Erratum was upload on 07-Dec-18

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

*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 (Reaffirmed)
Letter of Credit##	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3 (Reaffirmed)

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

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About Acuité Ratings & Research:

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