

RATING RATIONALE

27 Dec 2019

Ashwin Shipbreaking LLP (Formerly known as A. G. Enterprises)

Brickwork Ratings reaffirms the long term rating and the short term ratings for the Bank Loan Facilities of Rs.127.50 Crores of Ashwin Shipbreaking LLP (Formerly known as A. G. Enterprises) ('AS' or 'the Firm')

Particulars:

| Facility** | Amount (₹ Cr) | | Tenure | Rating* | |
|-----------------------|---------------|----------------|--|----------------------|-----------------------------------|
| | Previous | Present | | Previous (Dec, 2018) | Present |
| Fund based | 10.00 | (18.75) | Long Term | BWR BB Stable | BWR BB Stable (Reaffirmed) |
| Non Fund Based | 81.80 | 127.50 | Short Term | BWR A4+ | BWR A4+ (Reaffirmed) |
| Total | 91.80 | 127.50 | Rupees One Hundred Twenty Seven Crores and Fifty Lakhs Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

The reaffirmation in the long term and short term rating factors in average financial risk profile of the Company in FY19. The rating has positively factored in promoters experience in shipbreaking industry, and increase in revenue in FY19. The Firm has achieved revenue of Rs.60 Crs in H1FY20.

The rating however is constrained by the constitution of the Firm, weak Financial risk profile due to vulnerability in Profit margins, and susceptibility to volatility in scrap prices and fluctuations in forex rates.

Outlook- Stable

The stable outlook reflects that the Firm's performance is likely to be maintained over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters:** The promoters' experience of around two decades in the ship-breaking industry will support the business.
- **Visibility of future revenues :** The Firm has limited track record of operations. It registered revenue of Rs. 52.20 Crs in FY19 as against revenue of Rs. 11.13 Crs in FY18. The revenue is



expected to grow in the range of 80 - 100% in FY20 as the Firm has purchased two ships of 12288.95 LDT in FY19. It takes around four to five months on an average to completely dismantle a ship and generate revenue.

Credit Risks:

- **Weak Financial risk profile due to vulnerability in Profit margins:** The Firm has very thin operating profit margin of 2.58% in FY19 and 1.76% in FY18 due to the high cost of vessels, further on account of that ISCR stood weak at 0.87 times in FY19 and 0.49 times in FY18. However, the same is expected to improve in FY20 on account of expected increase in scale of operations.
- **Susceptibility to volatility in scrap prices and fluctuations in forex rates:** Profitability is susceptible to volatility in scrap prices, which depend on the price of commodities traded globally on exchanges. The ships to be broken are imported, the scrap is sold entirely in the domestic market. The Firm purchases ship in foreign currency under an LC arrangement, where the usance period is around 120-300 days. Since ship breaking entities usually have a long payment period on LC-backed purchases, any depreciation of the Rupee increases the amount payable to honour the same LC. While the Firm hedges such risks by booking forward contracts, it remains exposed to adverse movement in exchange rates, however the risk is partially hedged.
- **Risks inherent in partnership concern including risk of capital withdrawal:** Given AS's constitution as an LLP Firm, it is exposed to inherent risk associated with the partnership concern.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied upon the audited financials from FY17 to FY19, and projected financials till FY21, the information/clarification provided by the Company and the information available in the public domain.

RATING SENSITIVITIES

Going forward the ability of the Firm to achieve the revenue and profitability as envisaged would be key rating sensitivity.

Positive: Growth in the revenues, improved profitability margins and efficient working capital management will be positive for rating.

Negative: Significant decline in revenues and accruals or elongation of working capital cycle will be negative for the rating.

LIQUIDITY POSITION: Adequate

The Firm's liquidity remains adequate with build-up of fixed deposit to service the maturing letter of credit. Further the Firm is granted the CC for payment of customs duty and port charges in connection with the import of ship, which is paid within 4 months. Current ratio stood at 2.02 times as on 31st March 2019.

COMPANY PROFILE

The Firm has changed its constitution as Limited Liability Partnership (LLP) and changed its name as Ashwin Shipbreaking LLP on 6th May 2019. It is engaged in the business of ship-breaking activity

through allotted plot at Alang Shipyard by Gujarat Maritime Board (GMB). Mr. Ashwinbhai Govindbhai Kukadia and Mr. Jayantkumar Nandlal Vanani are the partners of the firm who are involved in the ship breaking business for more than 2 decades.

KEY FINANCIAL INDICATORS (in ₹ Cr)

| Key Parameters | Units | FY18 | FY19 |
|-------------------------|-----------|---------|---------|
| Result Type | | Audited | Audited |
| Total Operating Income | Rs in Crs | 11.28 | 53.55 |
| OPBDIT | Rs in Crs | 0.20 | 1.38 |
| PAT | Rs in Crs | 1.72 | 1.53 |
| Operating Profit Margin | % | 1.76 | 2.58 |
| ISCR | Times | 0.49 | 0.87 |
| Current Ratio | Times | 30.63 | 2.02 |

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY

| Facilities | Current Rating | | | Rating History | | |
|----------------|----------------|---------------|---|----------------|------|------|
| | Tenure | Amount (₹ Cr) | Rating | 4 Dec 2018 | 2017 | 2016 |
| Fund Based | Long Term | (18.75) | BWR BB Stable (Reaffirmed) | BWR BB Stable | - | - |
| Non Fund Based | Short Term | 127.50 | BWR A4+ (Reaffirmed) | BWR A4+ | - | - |
| Total | | 127.50 | Rupees One Hundred Twenty Seven Crores and Fifty Lakhs Only | | | |

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

| Analytical Contacts | Investor and Media Relations |
|--|--|
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Ashwin Shipbreaking LLP

ANNEXURE I

Details of Bank Facilities rated by BWR

| Bank | Facility | Previous Amt (Rs in Crs) | Present Amt (Rs in Crs) | Tenure |
|------|-----------------------------------|-----------------------------|----------------------------|------------|
| SBI | Cash Credit | 10.00 | - | Long Term |
| | Sub Limit_LC | - | (18.75) | |
| | Total Fund Based Limit | 10.00 | - | |
| | Letter of Credit | 80.00 | 125.00 | Short Term |
| | Credit Exposure Limit | 1.80 | 2.50 | |
| | Total Non-Fund Based Limit | 81.80 | 127.50 | |

Total Rupees One Hundred Twenty Seven Crores and Fifty Lakhs Only

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