



## Rating Rationale

### Ashwin Shipbreaking LLP

7 Jan 2021

**Brickwork Ratings Downgrades the long term and short term ratings for the Bank Loan Facilities of Rs.127.50 Crores of Ashwin Shipbreaking LLP ('AS' or 'the Firm')**

#### Particulars

Facility	Previous Amt (Rs in Crs)	Present Amt (Rs in Crs)	Tenure	Previous Rating (Dec 2019)	Present Rating**
Bank Loan - Fund Based	(18.75)	(18.75)	Long Term	BWR BB Stable	BWR BB- Stable (Downgraded)
Bank Loan- Non Fund Based	127.50	127.50	Short Term	BWR A4+	BWR A4 (Downgraded)
<b>Total</b>	<b>127.50</b>	<b>127.50</b>	<b>Rupees One Hundred Twenty Seven Crores and Fifty Lakhs Only</b>		

\*\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Details of Bank Loan Facility is given in Annexure 1

#### Ratings: Long Term and Short Term rating Downgraded

##### Rating Action/Outlook:

The rating downgrade factors decrease in scale of operations and profitability in FY20 and FY21 (Current year).

The rating continues to factor promoters' experience in the shipbreaking industry. However the rating is constrained by weak Financial risk profile due to vulnerability in Profit margins, and susceptibility to volatility in scrap prices and fluctuations in forex rates.

##### Rating Outlook: Stable

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

##### Key Rating Drivers

##### Key Strengths:



**Experienced promoters:** The promoters' experience of around two decades in the ship-breaking industry will support the business.

**Locational Advantage:** AS is located in Alang Ship Breaking yard, world's largest shipbreaking yard which ensures easy availability of ship, labour and infrastructure.

**Fluctuating revenue stream along with thin profitability:** The Firm's reported revenue of Rs.45.62 Crs and PAT of Rs.1.40 Crs as against revenue of Rs.53.55 Crs and PAT of rs.1.53 Crs in FY19 as due to unfavourable market conditions the Firm opted to reduce the ship dismantling activities in FY20. The Firm has not purchased any ship in FY20 and in current year. AS is negotiating to buy a small ship in Dec 2020 and expecting revenue of around Rs.10 to 12 Crs from ship breaking activities in Q4FY21.

**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 ships 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**

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

#### **RATING SENSITIVITIES**

**Positive:**

- Increase in scale of operations, and profitability

**Negative:**

- Inability to strike competitive deals for ship purchase
- Stretched working capital cycle adversely impacting the financial profile

**Liquidity- Adequate:**



The Firm's liquidity remains adequate. It does not have any term debt repayment obligations. Total Debt consists of Unsecured loans from promoters, friends and family. Bank limit utilization is Nil for the last six months ending Dec 2020 as there were almost no business activities.

**Firm 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 an 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- Isseur (in ₹ Cr) As available with BWR**

Crores	Unit	31-03-19	31-03-2020
Result Type	Type	Audited	Audited
TOI	Rs in Crs	53.55	45.62
PAT	Rs in Crs	1.53	1.40
OPBDIT	Rs in Crs	1.38	0.09
Partners Capital	Rs in Crs	22.74	27.17
Total Debt/TNW	Times	0.06	0.02

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** The terms of sanction include standard covenants normally stipulated for such facilities.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY:** CARE B+ Stable/A4 Issuer Not Cooperating dated 22 May 2020

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

SR No.	Name of Facility	Current Rating			Rating History								
		7 Jan 2021			2020			27 Dec 2019			4 Dec 2018		
		Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating
1.	Bank Loan	Fund Based Long Term	(18.75)	BWR BB-Stable (Downgraded)	NA	Fund Based Long Term	(18.75)	BWR BB Stable	Fund Based Long Term	10	BWR BB Stable		
		Non Fund Based	127.50	BWR A4 (Downgraded)		Non Fund Based	127.50	BWR A4+	Non Fund Based	81.80	BWR A4+		

		Short Term		rated)		Short Term			Short Term		
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**Annexure -1 Bank Loan Facility Details:**

Bank	Facility	Present Amt (Rs in Crs)	Present Amt (Rs in Crs)	Tenure
SBI	Cash Credit	-	-	Long Term
	Sub Limit CC	(18.75)	(18.75)	
	<b>Total Fund Based Limit</b>	-	-	
	Letter of Credit	125.00	125.00	Short Term
	Credit Exposure Limit	2.50	2.50	
	<b>Total Non-Fund Based Limit</b>	<b>127.50</b>	<b>127.50</b>	
<b>Total</b>		<b>127.50</b>	<b>127.50</b>	<b>Rupees One Hundred Twenty Seven Crores and Fifty Lakhs Only</b>

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

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