

Rating Rationale

Shri Gautam Shipbreaking Industries Pvt. Ltd.

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 73.00 Crores of Shri Gautam Shipbreaking Industries Pvt. Ltd. (hereinafter referred as “company”)

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	(28.00)	Long Term	BWR BB+ (Stable)
Non Fund Based	73.00	Short Term	BWR A4
Total	73.00	INR Seventy Three Crores Only	

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

RATING ACTION / OUTLOOK

BWR has taken a Standalone view of **Shri Gautam Shipbreaking Industries Pvt. Ltd.** and essentially relied upon the audited financial results up to FY19, management certified provisional financials upto 6Jan2020, projected financials upto FY22 and information/clarification provided by the firm's management.

The rating assignment factors the modest scale of operation, revenue visibility backed by purchase of new small sized ships, and comfortable liquidity position. The rating also factors extensive experience of the promoters in the ship breaking business, and financial support as and when required. The rating is, however, constrained by high working capital intensive nature of the business, thin profit margins due to volatility in the prices of steel and adverse fluctuations in forex rates; though the same is mitigated to the extent of hedging undertaken by the Company. The firm is exposed to intense competition from a large number of players operating in Bhavnagar, Gujarat as well as international competitors and the regulatory risks due to environmental issues.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Management:** - The firm is promoted by Mr. Vinod Bhayani and Family, who has experience of more than three decades in the ship breaking business. The company's long standing presence in the industry provides benefits in terms of easy procurement of ships at reasonable prices.
- **Modest scale of operation :** The Company has achieved a net profit of Rs. 1.47 Crs on a TOI of Rs. 67.83 Crs in



FY19 against a PAT of Rs. 1.61 Crs on a TOI of Rs.62.64 Crs in FY18. As per management certified provisional financials, the firm has achieved the revenue of Rs. 45.34 Crs upto 6th January, 2020. In FY20, the Company had purchased a small sized ship worth Rs. 13.97 Crs and mid sized ship worth Rs. 57.28 Crs in FY19. The scale of operation is relatively modest, however in the last couple of years, the Company has consistently procured ships, which has ensured consistent operation and visibility of revenue in future.

Credit risks:

- **Moderate financial risk profile :** The financial risk profile of the firm is moderate; marked by low tangible net worth of Rs. 14.07 crores and TOL/TNW 3.97x as on 31st March, 2019. Debt protection metrics of the company has also remained at comfortable levels reflected by ISCR at 2.23x and DSCR at 1.57x in FY19. The firm's working capital cycle is healthy as reflected in short receivable cycles of 5 and 4 days and inventory days indicate the average time taken for ship breaking activity at 151 and 232 days in FY18 & FY19 respectively.
- **Profits susceptible to fluctuations in foreign exchange rates & steel prices :** It takes around four to five months on average to completely dismantle a ship and generate revenue. Hence, the firm has an inventory risk for ships that are under the process of breaking due to the time lag involved between the ship's purchases and selling of scrap, given the high volatility faced in steel prices. While the firm hedges such risks by booking forward contracts, it remains exposed to adverse movement in exchange rates. Operating profit margins are thin due to high raw material cost and vulnerable due to steel price fluctuations.
- **Vulnerability due to intense competition -** The Company faces intense competition from large and small existing players operating at Bhavnagar as well as neighbouring countries.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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 SENSITIVITIES

Positive: The rating may be upgraded if there is a significant improvement in operating income and profit margins, infusion of the fund in the form of equity and unsecured loans and ability to effectively manage its working capital requirements.

Negative: The rating may be downgraded if the leverage deteriorates and if it witnesses more than 20% fall in revenues and margins.

LIQUIDITY POSITION: Comfortable

The company's liquidity remained comfortable, demonstrated by net cash accruals of Rs. 1.67 Crs in FY18 and Rs. 1.65 Crs in FY19, comfortable surplus available in the form of cash and cash equivalents, inventory and receivables. Promoters had extended support by infusion of unsecured loans upto Rs 6.19 crs in FY19. The Company's working capital cycle is comfortably reflected in low receivable days. Further, the current ratio is 1.29x in FY19. Timely fund infusion to ensure debt servicing will remain a key rating sensitivity factor.

COMPANY PROFILE

Shri Gautam Shipbreaking Industries Pvt. Ltd. was established in 1983 for carrying out an activity of ship-breaking/recycling activity at Alang Shipyard allotted by Gujarat Maritime Board (GMB), Bhavnagar, Gujarat. The Company



is managed by Mr. Vinod Bhayani and his son Mr. Samir Bhayani, who has extensive experience in ship-breaking business.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019	2018
Result Type		Audited	Audited
Operating Revenue	₹ Crs	67.83	62.64
EBITDA	₹ Crs	2.11	2.35
PAT	₹ Crs	1.47	1.61
Tangible Net worth	₹ Crs	14.07	12.61
Total Debt/Tangible Net worth	Times	0.45	0.69
Total Outside Liabilities /Tangible Net worth	Times	3.97	4.75

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED- Not Applicable

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY -Not Applicable

RATING HISTORY

Facility	Current Rating (2020)			Rating History		
	Type	Amount (₹ Crs)	Rating	2019	2018	2017
Fund Based:	Long Term	(28.00)	BWR BB+ Stable	Not Rated	Not Rated	Not Rated
Non Fund Based:	Short Term	73.00 (0.60)	BWR A4	Not Rated	Not Rated	Not Rated
Total		73.00		₹ Seventy Three Crores Only		

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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Shri Gautam Shipbreaking Industries Pvt. Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Bank of Baroda	Fund Based: Cash Credit	(28.00)	-	(28.00)
2	Bank of Baroda	Non Fund Based: Foreign Letter of Credit (Sub limit : Bank Guarantee) Forward Contract/derivative Limit	-	70.00 (0.60) 3.00	73.00
TOTAL					73.00

Total Rupees Seventy Three Crores Only.



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