



Press Release

Shri Gautam Shipbreaking Industries Private Limited

March 16, 2021

Ratings

Sl. No.	Facilities	Amount (Rs. Crore)	Ratings	Rating Action
1	Long-term/Short-term Bank Facilities	28.00	IVR BB+; Stable / IVR A4+ (IVR Double B Plus with Stable Outlook/IVR A Four Plus)	Assigned
2	Short Term Bank Facilities	45.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	73.00 (Rs. Seventy-Three crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shri Gautam Shipbreaking Industries Private Limited (GSIPL) derives comfort from its experienced promoters with long track record of operations and conversion of plot into Green Recycling Yard. Further, the ratings also note its satisfactory gearing and satisfactory debt protection metrics. These rating strengths are partially offset by its small scale of operation with low profitability, exposure to foreign currency fluctuation risk, intense competition in the industry, dependency on availability of scrap ship, exposure to cyclicity inherent in the ship breaking industry and cyclicity of steel industry along with regulatory risk.

Rating Sensitivities

Upward factors

- Growth in scale of operations with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Improvement in working capital cycle

Downward Factors

- Deterioration in scale of operation and/or deterioration in profitability impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure



Press Release

- Elongation in the operating cycle impacting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters with track record of operations**

GS IPL entered into ship breaking business from 1983 and has a strong presence and long track record of operations in the ship breaking industry with experienced promoters. The operations of the company are looked after by three members board comprising- Mr. Vinodrai B Bhayani, Samir V. Bhayani and Mr Shital V. Bhayani along with a team of experienced personnel. The directors have around three decades of experience in similar business.

- **Satisfactory gearing and satisfactory debt protection metrics**

The capital structure has been comfortable with overall gearing of 0.48x as on March 31, 2020. Interest coverage ratio was comfortable at 3.06x in FY20 (2.54x in FY19) and total debt to GCA was moderate at 3.94x in FY20 (3.74x in FY19).

- **Conversion of plot into Green Recycling Yard**

GS IPL's plot has been converted into a Green Recycling (Guidelines for Safe and Environmentally Sound Ship Recycling) yard in recent past to be compliant with International Maritime Organisation's, Hong Kong Convention (HKC), which will enhance the ship procurement capabilities and result in lower procurement cost of ships thereby supporting the profit margins of the company. This apart the operation of the company is RINA (Registro Italiano Navale) class certified.

Key Rating Weaknesses

- **Small scale of operation with low profitability**

GS IPL's scale of operation continues to remain small where total operating income was at Rs.60.02 crore during FY20. The same has declined from ~Rs.69 crore during FY19 on account of fall in scrap metal value during the year. Tangible net worth of the company was also low at Rs. 15.76 crore. Small scale of operations limits the economics of scale benefits and financial flexibility. This apart, profitability of the company was also thin during the said period where EBITDA margin and PAT margin hovered around 5% and 2% respectively.

- **Fortune depends of availability of scrap ship and intense competition in the industry**



Press Release

GSIPL purchases scrap ship from selling agent in offshore market. The fortune of the company depends on availability of scrap ship and success of bidding. The sector faces competition from other national level large players and small unorganized players.

- **Exposed to foreign currency fluctuation risk**

Since the ships are procured from the international market in US Dollar terms against a letter of credit which has a fixed maturity, the firm's profitability is exposed to fluctuations in foreign currency exchange rates.

- **Cyclicality inherent in the ship breaking industry along with regulatory risk and exposure to cyclicality of steel industry**

Ship procurement depends on current trends in the ship breaking industry along with the international economic situation, which affects the firm's revenue and thus profit margins. Further, the company is also exposed to regulatory risks, primarily due to environment and human right related issues. Further, GSIPL's fortunes depend on the steel industry and any slowdown in global economy may hamper the steel industry's growth. Hence the company's performance is susceptible to the cyclicality of the steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate cash accruals as against its debt repayment obligations. The company is expecting to generate cash accruals to the tune of ~Rs.2-3 crore as against its debt repayment obligations of ~Rs.0.01 crore each year during FY21-23. Further, the company is having a large cash balance of Rs.0.46 crore as on January 31, 2021.

About the Company

Shri Gautam Shipbreaking Industries Private Limited (GSIPL), incorporated in 1983 at Bhavnagar, Gujrat and is engaged in ship breaking activities. The company operates from the Alang Ship Breaking Yard in Bhavnagar. GSIPL's operations are carried out at the premises



Press Release

leased out by the Gujarat Maritime Board in Bhavnagar and the operation of the company is HKC compliant and RINA Class certified.

The operation of the company is looked after by the Mr. Vinodrai B Bhayani and other two directors along with a team of experienced personnel.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	69.17	60.02
EBITDA	3.40	3.37
PAT	1.47	1.70
Total Debt	6.29	7.61
Tangible Net worth	14.05	15.76
EBITDA Margin (%)	4.92	5.61
PAT Margin (%)	2.13	2.83
Overall Gearing Ratio (x)	0.45	0.48

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Fund based/Non-Fund based*	Long Term/Short-term	28.00	IVR BB+ / Stable/ IVR A4+	-	-	-
2	Line of Credit#	Short Term	42.00	IVR A4+	-	-	-
3	Forward Contract	Short Term	3.00	IVR A4+	-	-	-

* CC sublimit of LOC; #Comprising of sublimit LC and BG

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:



Press Release

Name: Mr. Sanmoy Lahiri
Tel: (033) 46022266
Email: slahiri@infomerics.com

Name: Mr. Avik Podder
Tel: (033) 46022266
Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
LT/ST Fund Based/Non-Fund Based Limits*	-	-	-	28.00	IVR BB+:Stable/ IVR A4+
ST Non-Fund Based Limits – LOC#	-	-	-	42.00	IVR A4+
ST Non-Fund Based Limits – Forward Contract	-	-	-	3.00	IVR A4+

* CC sublimit of LOC; #Comprising of sublimit LC and BG