

## G N Ship Breakers

November 10, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	45.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (Double B Minus ; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Revised from CARE BB; Stable / CARE A4+ (Double B ; Outlook: Stable / A Four Plus) and moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>45.00</b> <b>(₹ Forty-Five Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

CARE has been seeking information from GNSB to monitor the rating vide e-mail communications/ letters dated July 26, 2022, September 08, 2022, September 15, 2022, October 07, 2022, November 02, 2022 and numerous phone calls. However, despite our repeated requests, firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Furthermore, firm has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on G N Ship Breakers' bank facilities will now be denoted as **CARE BB- / CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The revision in rating takes into account non-availability of adequate information. The rating assigned to the bank facilities of GNSB continue to remain constrained by its modest scale of operations which exhibited fluctuating trend, moderate profitability, leveraged capital structure, moderate debt coverage indicators and partnership nature of its constitution. The ratings are further constrained due to cyclical nature in industry coupled with exposure to regulatory and environmental hazard risk, susceptibility of profitability to volatile raw material prices and adverse movement in forex rates.

The ratings of GNSB, however, derive strength from its experienced promoters, established track record of operations and location of yard at Alang which has unique geographical features suitable for ship-breaking operations.

### Detailed description of the key rating drivers

At the time of last rating on October 21, 2021 the following were the rating strengths and weaknesses:

#### Key Rating Weaknesses

##### **Modest scale of operations and moderate profitability**

Over the years, total operating income of the firm has remained modest and had exhibited a fluctuating trend as per the availability of ship for cutting along with the volatility associated with steel prices. During FY20, firm had not carried out any ship breaking operations leading to sharp decline in TOI. However, in FY21, it had purchased one ship leading to moderate scale of Rs.46.51 crore of TOI in FY21. PBILDT margin have remains fluctuating and moderate due to low value additive nature of business apart from impact of volatile steel prices and forex rates. In FY21, profitability had improved to 6.52% over FY19 of 5.67% with better sales realization with increasing steel prices.

##### **Leveraged capital structure and moderate debt coverage indicators**

GNSB has modest networth base of Rs. 12.12 crore as on March 31, 2021. Moreover, the firm has given loans & advances to third parties which stood at Rs. 6.45 crore as on March 31, 2021.

The overall gearing of GNSB deteriorated and stood leveraged due to increase in the outstanding 'LC backed creditors' as on March 31, 2021 with purchase of ship in FY21. Out of the total debt of Rs. 46.40 crore as on March 31, 2021, unsecured loans by partners and relatives stood at Rs. 2.90 crore as on March 31, 2021. Also, during FY21, the debt service coverage indicators remained moderate marked by high TD/GCA of 61.19x and moderate interest coverage of 1.54x.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

***Partnership nature of its constitution***

GNSB, being a partnership concern, is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency along with risk of unlimited liability of the partners. Further, partnership concern has restricted access to external borrowings, as the creditworthiness of partners remains the key factor affecting the credit decision for lenders.

***Cyclical nature related to ship breaking industry***

The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight rates in the global economy. These freight rates take into account the global demand of seaborne transport and supply of new vessels which in turn depends on global merchandise trade. Better availability of old ships for recycling is ensured at the time of recession and when freight rates are low which makes it economical to dismantle the ship rather than continue to operate it. Further, Indian ship-recycling yard face intense competition from the neighboring countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and partial enforcement.

***Exposure to regulatory and environment hazard risk***

The ship-breaking industry in the Alang-Sosiya belt of Gujarat is highly regulated with strict working and safety standards to be maintained by the ship-breakers for their labourers and environmental compliance. Furthermore, the industry is prone to risks related to pollution as it involves dismantling of ships which contain various hazardous substances like lead, asbestos, acids, hazardous paints, etc.

***Susceptibility of profitability to volatile raw material prices and adverse movement in forex rates***

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes BSBC to any adverse price movement on the uncut ship inventory (which depends on the time elapsed since the purchase of the ship and the size/tonnage of the ship) as well as unsold inventory of steel scrap held by the firm (which is generally minimal). The firm uses Letter of Credit (LC) facility to purchase old ships. Since the transactions are denominated in foreign currency, the firm is exposed to forex risk, as the firm's revenue is denominated in Indian Rupee (INR). However, the firm hedges its forex risk by taking forward cover as per the market scenario, which mitigates its risk to forex fluctuations to an extent.

**Key Rating Strengths*****Experienced promoters***

The partners of GNSB have a long-standing experience of over two decades in the ship breaking industry. Also, the partners support operations by way of capital infusion and unsecured loan when needed. The partnership firm was run by Mr. Sanjiv Kumar Jain, Mr. Balkrishna Agarwal and Mr. Mukesh Gupta in 1993. After the retirement of Mr. Gupta and Mr. Agarwal in September 2011, the firm is now being run by Mr. Sanjiv Kumar Jain, his wife Mrs. Suman Jain and Mr. Akshat Jain.

***Established track record of operations***

The firm mainly carries out ship breaking for bulkers, tankers and containers type of ships. The firm is unable to carry out ship breaking for big ships due to small frontage and lower LC limit. Till date firm has recycled 39 ship with approx. 3.50 Lakh MT tonnage. The partners are also engaged in steel rolling via their entities namely Agarwal Industries and L.G. Industries. The partners are also engaged in stainless steel manufacturing via their firm namely Prabhat industries.

***Location advantage***

The firm's ship breaking yards are located at Alang-Sosiya belt, which constitutes nearly 90% of India's ship-breaking activities and it is India's largest ship-breaking cluster. The unique geographical features of the area include a high tidal range, wide continental shelf, adequate slope and a mud free coast. These conditions are ideal for a wide variety of ships to be beached easily during high tide. The cluster accommodates nearly 170 plots spread over around 10 km long stretch along the sea coast of Alang-Sosiya. Alang has been a consistent player in ship breaking and accounts for 98% of total ships recycled in India. GNSB has infrastructure to comply environment norms which are certified by RINA S.P.A.

***Liquidity – Adequate***

GNSB has adequate liquidity marked by moderate LC coverage ratio, moderate utilization of working capital limit albeit low cash and cash equivalents (around Rs. 0.33 crore). The average monthly fund-based maximum utilization for the past twelve months ended June-2021 stood low at 30% while monthly maximum LC utilization was moderate at 89% for the past 12 months ended June-2021. Firm had also taken unsecured loans from third party for purchase of ship due to lower LC limit. The current ratio and the quick ratio stood at 1.49 times and 1.18 times as on March 31, 2021. Going forward, it is expected to moderate generate modest cash accruals against low debt repayment obligations of Rs. 0.11 crore towards vehicle loans. The LC coverage ratio stood at 1.10 times as on March 31, 2021 reflecting adequate coverage.

**Analytical approach:-** Standalone

**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)  
[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Rating methodology - Wholesale Trading](#)  
[Policy on Withdrawal of Ratings](#)

**About the company**

Incorporated in May 1990, G N Ship Breakers (GNSB) is engaged in the business of ship recycling, breaking and trading. GNSB carry out ship-breaking activity at plot no. B-204 with total plot size of 3645 sq. meters having frontage of 45 meters in the Sosiya belt of Gujarat. The premises are leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Plot is certified by RINA S.P.A

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	47.92	NA	NA
PBILDT	3.12	NA	NA
PAT	0.67	NA	NA
Overall gearing (times)	3.83	NA	NA
Interest coverage (times)	1.54	NA	NA

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable Brickworks has reviewed the ratings of GNSB under issuer non-cooperating category via press release dated January 27, 2022. Crisil has reviewed the ratings of GNSB under issuer non-cooperating category via press release dated February 26, 2022.

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based-LT/ST	-	-	-	-	45.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based-LT/ST	LT/ST*	45.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable / CARE A4+ (21-Oct-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities :-** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based-LT/ST	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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