

## Gohilwad Ship Breaking LLP

January 11, 2023

### Ratings

Facilities	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	70.80	CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	1.20	CARE A4 (A Four)	Assigned
<b>Total Bank Facilities</b>	<b>72.00</b> <b>(₹ Seventy-Two Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gohilwad Ship Breaking LLP (GSBLLP) continue to remain tempered on account of modest scale of operations and thin profitability, moderate debt coverage indicators with leveraged capital structure, exposure to adverse movement in forex rates and constitution of the firm being partnership. The ratings are further tempered owing to exposure to volatility in steel/scrap prices, cyclical nature associated with ship breaking industry coupled with competition of global peers and exposure to regulatory and environment hazard risk.

The ratings, however derive strength from location of yard at Alang (Gujarat) which has unique geographical features suitable for ship-breaking operations along with proper certifications and regular customer base along with experienced promoters and established track record of operations.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations beyond Rs. 70.00 crores along with sustained operating margin above 3.00% leading to higher cash accruals.
- Overall gearing below unity on a sustained basis
- Total debt to GCA to fall below 10x on sustained basis.

#### Negative factors - Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs. 30 crore.
- Any regulatory impositions may impact the operations of the company.

### Detailed description of the key rating drivers

#### Key rating weaknesses

##### Modest scale of operations and thin profitability margins

Over the years, the total operating income of the firm has remained modest in the range of Rs. 26.53 crore and Rs. 47.66 crore during FY18 to FY22. During April 01, 2022 to Sept 15, 2022, the firm has achieved sales of Rs. 15.44 crore.

During FY22, TOI of GSBLLP stood stable and improved by 7.20% to Rs. 47.66 crore in FY22 from Rs. 44.46 crore in FY21.. The PBILDT margins of the firm has improved to 1.34% in FY22 vis-à-vis 0.09% in FY21 with PAT margin at 1.89% in FY22 vis-à-vis 0.81% in FY21. This improved profitability is basically due to better realizations in FY22. Despite the improvement, PBILDT margin have remained thin and fluctuating due to low value additive nature of business apart from impact of volatile steel prices and forex rates.

##### Leveraged capital structure with moderate debt coverage indicators.

The overall gearing of GSBLLP stood leveraged at 1.94 times as on March 31, 2022 as compared to 0.57 times as on March 31, 2021, due to increase in the outstanding 'LC backed creditors' as on March 31, 2022. Also, Total Debt/GCA deteriorated and stood at 18.55 times as on March 31, 2022 vis-à-vis 13.96 times as on March 31, 2021 owing to higher debt level on the books. However, during FY22, the debt service coverage indicator marked by interest coverage ratio improved and remained comfortable at 5.87x in FY22 vis-à-vis 0.21x in FY21 owing to lower interest cost and better operating profitability.

##### Exposure to adverse movement in forex rates; but hedging policy provides some protection

The group 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 group hedges its forex risk by taking forward cover as per the market scenario, which mitigates its risk to forex fluctuations to an extent.

##### Constitution of the firm being partnership

The constitution of firm being partnership, the firm is exposed to risk of withdrawal of capital from the business along with risk of absence of succession planning which may expose the firm to risk of dissolution of business.

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

**Exposure to volatility in steel/scrap prices**

The volatility in steel prices driven by demand and supply conditions in the global as well as local markets exposes GSBLLP 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). Indian ship-recycling yard face intense competition from the neighbor countries like Bangladesh and Pakistan due to availability of low wage labour, lax occupational health and environment related regulations, and partial enforcement

**Cyclicality associated with ship breaking industry coupled with competition of global peers**

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. The movement in the freight prices is indicated by the Baltic Dry Index (BDI). BDI is basically shipping and a trade index created by London Based Baltic Index which is linked to freight prices of oil tankers and exposure to regulatory and environment hazard risk.

**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. that have to be properly disposed off as per the regulatory guidelines. The industry has attracted considerable attention on the issues relating to environmental pollution, health problems of labor and violation of human rights in the recent past. Thus, if stringent environmental norms are imposed then it may have an adverse effect on the operations of the firm.

**Key rating strengths****Experienced promoters and established track record of operations**

GSBLLP is promoted by Mr. Hitesh Shah, Mr. Jimit Shah, Mr. Sudhir Mehta and Mr. Rajesh Mehta and is engaged in ship breaking activity. They are one of the oldest players in ship-breaking industry at Alang and has been successfully able to operate its business through various business cycles. The promoters have more than two decades of experience and is actively involved in operation of the firm. GSBLLP has recycled around 16 ships in last five years with total tonnage of 53,664 MT. In FY22, the firm recycled 1 research vessel (name: Jupiter) and 1 accommodation barge (name: High One). GSBLLP recycles Bulk Carriers, General Cargo, Oil & Chemical Tanker, Passenger Tanker & Container, fish factory, tugs like small vessels.

**Location of yard at Alang which has unique geographical features suitable for ship-breaking operations along with proper certifications and regular customer base**

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.

The firm has infrastructures to comply which are certified by Class NK. This compliance are in relation to the infrastructure and better environment friendly practices and results in lower procurement cost of ships for group and a preference in ship recycling. The company has applied for CLASS NK certification whose 1<sup>st</sup> audit is completed and 2<sup>nd</sup> audit will be conducted now. Within a period of 2 months, this certificate is expected to be received and will be valid for 5 years. The firm has RINA certification which has validity up to 2025.

**Liquidity: Stretched**

The liquidity position is stretched characterized by low accruals and low cash balance of Rs. 1.08 crore as on March 31, 2022 and Rs. 0.14 crore as on Sept 30, 2022. However, it has no term loans and term debt on its books as on balance sheet date. The net cash flow from operating activities stood positive at Rs. 1.91 crore in FY22 vis-à-vis negative cash flow from operation of Rs. 3.11 crore in FY21. Further, the current ratio stood moderate at 1.42 times and quick ratio stood at 0.65 times as on March 31, 2022 (vis-à-vis 1.09 times and 0.37 times respectively as on March 31, 2021).

**Analytical approach:** Standalone

**Applicable criteria:**

[Policy on default recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Financial ratios - Non-Financial Sector](#)

[Short Term Instruments](#)

[Policy on default recognition](#)

[Rating Methodology - Wholesale Trading](#)

### About the Company

Established in 1995, Gohilwad Ship Breaking LLP (GSBLLP) is engaged in the ship recycling business at Alang-Sosiya belt of Bhavnagar region in Gujarat. The firm carries on ship breaking activities at Plot No. 87A in Alang Ship Breaking Yard, Alang, Dist-Bhavnagar, allotted by Gujarat Maritime Board with total plot size of 2700 sq. meters having frontage of 45 meters. The premises are leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Plot is compliant under "Green recycling - Guidelines for Safe and Environmentally Sound Ship Recycling, adopted by resolution MEPC.210 (63)" certified by RINA S.P.A. and Class NK. Gohilwad Ship Breaking Co., partnership firm, is converted into LLP with name Gohilwad Ship Breaking LLP on 11th October, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23* (Prov.)
Total operating income	44.46	47.66	15.44
PBILDT	0.04	0.64	NA
PAT	0.36	0.90	NA
Overall gearing (times)	0.57	1.94	NA
Interest coverage (times)	0.21	5.87	NA

A: Audited; Prov.: Provisional; \*Refers to period April 01, 2022 to September 15, 2022; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE:** Not Applicable

**Disclosure of Interest of Managing Director & CEO:** Not Applicable

**Rating History for 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
Fund-based - LT/ ST- Standby Line of Credit	-	-	-	-	9.00	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Letter of credit	-	-	-	-	61.80	CARE BB; Stable / CARE A4
Non-fund-based - ST- Credit Exposure Limit	-	-	-	-	1.20	CARE A4

**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 - ST-Credit Exposure Limit	ST	1.20	CARE A4				
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	61.80	CARE BB; Stable / CARE A4				
3	Fund-based - LT/ ST- Standby Line of Credit	LT/ST*	9.00	CARE BB; Stable / CARE A4				

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
1. Current Account	The borrower shall not open any new current account with any other Bank, without prior approval from the bank.
<b>B. Non-financial covenants</b>	
1. Inspection/ Audit	The Bank reserves the right to undertake inspection of the stock, book debts, plants, offices, any studios and sets, mortgaged properties, any other securities by appointing an external agency or by its own personnel at a 24 hour notice.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Standby Line of Credit	Simple
2	Non-fund-based - LT/ ST-Letter of credit	Simple
3	Non-fund-based - ST-Credit Exposure Limit	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 instrument:** CARE Ratings Ltd. 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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