Ashwin Shipbreaking LLP

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	116.28	CARE B+; Stable / CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of the bank facilities of Ashwin Shipbreaking LLP, CARE has considered the combined financial and business profile of two entities, namely, Ashwin Shipbreaking LLP and Shantamani Enterprise LLP, collectively known as Shantamani Group (SHG). All the two entities of SHG have similar business profiles with operational and business linkages with common management. The ratings of SHG continue to remain constrained on account of ASL's constitution as a partnership firm and its modest and fluctuating scale of operations owing to fewer ship purchases for breakage. The ratings are further constrained on account of susceptibility of its profitability to adverse movement in foreign exchange rates, inherent cyclicality in the industry and exposure to regulatory and environmental hazards risk. The ratings, however, continue to derive strength from long standing experience of the management in ship-breaking industry and locational advantage due to SHG's presence at Alang.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in scale of operations to more than 100 crores on a sustained basis.
- Improvement in LC coverage ratio beyond 1.5 times on a sustained basis.

Negative factors

- Deterioration in LC coverage ratio below 1.15 times on a sustained basis.
- Any major deviation of funds to non-core business operations.

Analytical approach: Combined

CARE Ratings has adopted the combined approach for analysing for two entities of the group, viz., Shantamani Enterprises LLP and Ashwin Shipbreaking LLP (referred as Shantamani Group (SHG)) due to their operational, financial and managerial linkages. Further, all the two entities have a common management, as Jayantkumar N. Vanani and Devyaniben J. Vanani manages the affairs of all the two entities (as partner in both the firms).

Outlook: Stable

CARE Ratings believes that SHG will continue to benefit from the vast experience of the management in the shipbreaking industry.

Detailed description of the key rating drivers:

Key weaknesses

Exposure to adverse movement in forex rates

SHG uses letter of credit (LC) facility to purchase old ships and the transactions are denominated in United States Dollars (USD). Due to this, SHG is exposed to forex risk during the LC's usance period, as the entire revenue is denominated in Indian Rupee (INR), providing no natural hedge for the purchase of ships. Moreover, SHG does not have any active hedging policy for its dollar denominated payables, which also exposes SHG to forex risk during the LC's usance period.

Linkage to cyclicality inherent in the industry

The ship breaking industry is cyclical in nature as supply of old ships for recycling is inversely proportional to freight index. The freight index is a function of global demand of seaborne transport and supply of new vessels which in

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

turn depend 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 neighbouring countries like Bangladesh and Pakistan due to availability of low wage labour, lesser occupational health and environment related regulations and larger yards giving better bargaining power to yard owners.

Exposure to regulatory and environmental 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, acid, hazardous paints, etc. that have to be properly disposed-off as per the regulatory guidelines.

Inherent nature of partnership:
Since the firm is constituted as an LLP there is an inherent risk of withdrawal of capital and the continuity of the functions.

Key strengths

Long standing experience of management in the ship breaking industry
Jayantkumar N. Vanani and Devyaniben J. Vanani, the partner of Shantamani Enterprise LLP (SEL) & Ashwin Shipbreaking LLP (ASL) has a vast experience of almost 30 years and 5 years respectively in the ship breaking industry. He also held the position of secretary in Ship Recycling Industries Association (SRIA), an industry association of ship recyclers operating in Bhavnagar area in Gujarat.

Location of yards at Alang which has unique geographical features suitable for ship-breaking operations
SHG's ship breaking yards are located at Alang-Sosiya belt which is considered to be one of the world's largest ship-breaking cluster and constitutes nearly 90% of India's ship-breaking activity. The unique geographical features of the area including a high tidal range, wide continental shelf, 15-degree slope and a mud free coast are ideal for large sized ships to be beached easily during high tide. It accommodates nearly 167 plots spread over around 10 km long stretch along the seacoast of Alang.

Liquidity: Stretched

The group has stretched liquidity marked by low cash accruals. The average fund-based utilization for the past twelve months ended October 2024 stood NIL. Cash flow from operations declined and stood at Rs. -4.47 crore during FY24 (PY: 14.62 Crore as on 31st March 2023). Ship-breaking entities need to park their sale proceeds into fixed deposits (FDs) as per the schedule given by banks at the time of opening the LC for ship purchase, which are lien marked against the LC obligation towards purchase of the ship, in addition to the upfront margin kept for opening of the LC in favour of the supplier. This ensures gradual build-up of reserve funds to meet the sizeable LC payment obligations at maturity. As of March 31, 2024 there is no outstanding LC.

Applicable criteria
Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry
Established as a proprietorship firm by Mr. Ashwin Kukadia as A. G. Enterprise, now known as Ashwin Shipbreaking LLP(ASL) is engaged in ship breaking activities in Bhavnagar district in Gujarat. During FY17, A. G. Enterprise (AGE) was reconstituted as a partnership firm. The operations of the firm are managed by Jayantkumar N. Vanani and

Devyaniben J. Vanani, who in addition to ASL also manages other group firms engaged in similar business in viz Shantamani Enterprise LLP.

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	0.00	0.00
PBILDT	-0.68	-1.26
PAT	0.69	0.64
Overall gearing (times)	0.20	0.18
Interest coverage (times)	-1.55	-1.62

A: Audited; Note: 'the above results are latest financial results available'

Group Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	83.78	21.33
PBILDT	0.01	-2.44
PAT	1.32	1.29
Overall gearing (times)	0.46	0.10
Interest coverage (times)	0.00	-2.16

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork has conducted the review on the basis of best available information and has classified Ashwin Shipbreaking LLP as "Not cooperating" vide its press release dated April 24, 2024.

Any other information: NA

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

Covenants of the rated instruments/facilities: Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	33.00	CARE B+; Stable / CARE A4
Fund-based/Non-fund-based-LT/ST		-	-	-	83.28	CARE B+; Stable / 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ST	33.00	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (28-Dec-23)	1)CARE B+; Stable / CARE A4 (27-Feb-23) 2)CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING* (20-Sep-22)	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (15-Jul-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	83.28	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (28-Dec-23)	1)CARE B+; Stable / CARE A4 (27-Feb-23) 2)CARE A4; ISSUER NOT COOPERATING* (20-Sep-22)	1)CARE A4; ISSUER NOT COOPERATING* (15-Jul-21)

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

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About us:
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