



Rating Rationale

9 April 2020

Alang Ship Breaking Corporation

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 39.00 Crores of Alang Ship Breaking Corporation.

Particulars

| Facility | Amount (₹ Crs) | | Tenure | Rating* | |
|-----------------------|----------------|--------------|------------------------------------|-------------------------|--------------------------------------|
| | Previous | Present | | Previous (October 2019) | Present |
| Fund based | 4.00 | (5.70) | Long Term | BWR BB Stable | BWR BB Stable (Reaffirmation) |
| Non Fund Based | 35.00 | 39.00 | Short Term | BWR A4+ | BWR A4+ (Reaffirmation) |
| Total | 39.00 | 39.00 | INR Thirty Nine Crores Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Rating : reaffirmation

RATING ACTION / OUTLOOK

BWR has taken a Standalone view of **Alang Ship Breaking Corporation** and essentially relied upon the audited financial results up to FY19, Management certified provisional financials for FY20 and information/clarification provided by the Firm's management.

The rating reaffirmation factors the revenue visibility backed by purchase of new mid sized ships, adequate liquidity position and moderate financial risk profile of the firm marked by healthy leverage and coverage indicators. The rating also factors extensive experience of the promoters in the ship breaking business, and locational advantage of the Firm. 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 firm. The Company is exposed to intense competition from a large number of players operating in Bhavnagar, Gujarat as well as international competitors. The firm also carries the risk of withdrawal of the capital by the partners and the regulatory risks due to environmental issues.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Management:** - The firm is promoted by Mr. Mahesh Patel, who has experience of more than two and a half decades in the ship breaking business. The firm's long standing presence in the industry provides benefits in terms of easy procurement of ships at reasonable prices.
- **Modest scale of operation:** The firm has achieved a net profit of Rs.0.56 Crs on a TOI of Rs. 46.38 Crs in FY19 against a PAT of Rs. 0.56 Crs on a TOI of Rs.36.92 Crs in FY18. In the financial year FY20, the firm had purchased two ships worth Rs.32.18 Crs and opened LCs against the same. As per management certified provisional financials as on 31st March, 2020, the firm has achieved a sales of Rs.34.49 Crs. In the last couple of years, the firm has consistently procured ships, which has ensured consistent operations. However, The Covid-19 pandemic is likely to have a negative impact on the ship breaking industry in the near term.
- **Moderate financial risk profile:** The financial risk profile of the firm is moderate with tangible net worth of Rs. 12.38 crores and Debt/TNW was low at 0.11x in FY19 in absence of any major long term liabilities. The entity's high dependence on LC - backed purchasing is reflected by TOL/TNW at 0.82 times for FY19 and 2.23 times for FY20 (prov). The receivable days are comfortable at 39 & 29 in FY18 & FY19 respectively.

Credit risks:

- **Profitability susceptible to fluctuations in foreign exchange rates & steel prices :** It takes around four to five months on an 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; further on account of that debt protection metrics are weak, however slightly improved i.e ISCR @0.84x in FY18 to 1.58x in FY19.

- **Intense competition & risk of withdrawal of the capital** - The firm faces intense competition from large and small existing players operating at Bhavnagar as well as neighbouring countries. Being a partnership firm, it is exposed to the risk of capital withdrawal by the partners limiting financial flexibility of the firm.

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: Significant improvement in operating income and profit margins, infusion of the funds by promoters in the form of equity and unsecured loans and ability to effectively manage its working capital requirements will be positive for the rating.

Negative: Significant decline in revenues and profitability leading to deterioration in overall credit metrics and absence of financial support by promoters will be negative for rating.

LIQUIDITY POSITION: Adequate

The firm's liquidity position remains adequate characterised by adequate cash accruals from business to support its debt repayments, and average surplus available in the form of inventory, receivables. The firm's working capital cycle is comfortable reflected in low receivable days and inventory holding level.

FIRM PROFILE

Alang Ship Breaking Corporation is a partnership firm established in 1992 for carrying the activity of ship breaking. The firm has its registered office and plot is in Bhavnagar, Gujarat. The business operations are managed by Mr. Mahesh Patel and other three partners. The firm has dismantled 35 ships since 1992 imported from Japan, Poland, USA, China etc.

KEY FINANCIAL INDICATORS

| Key Parameters | Units | 2019 | 2018 |
|---|-------|----------------|----------------|
| Result Type | | Audited | Audited |
| Operating Revenue | ₹ Crs | 46.38 | 36.92 |
| EBITDA | ₹ Crs | 2.85 | 1.66 |
| PAT | ₹ Crs | 0.56 | 0.56 |
| Tangible Net worth | ₹ Crs | 12.38 | 11.24 |
| Total Debt/Tangible Net worth | Times | 0.11 | 0.31 |
| Total Outside Liabilities /Tangible Net worth | Times | 0.82 | 2.07 |

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 | 4Oct2019 | 5Sept2018 | 2017 |
| Fund Based: | Long Term | (5.70) | BWR BB (Stable) Reaffirmed | BWR BB (Stable) | BWR BB (Stable) | Not Rated |
| Non Fund Based: | Short Term | 39.00 | BWR A4+ Reaffirmed | BWR A4+ | BWR A4 | Not Rated |
| Total | | 39.00 | ₹ Thirty Nine 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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Alang Ship Breaking Corporation

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 | State Bank of India | Fund Based: Cash Credit | (5.70) | - | (5.70) |
| 2 | State Bank of India | Non Fund Based: Foreign Letter of Credit Credit Exposure Limit | - - | 38.25 0.75 | 39.00 |
| TOTAL | | | | | 39.00 |

Total ₹ Thirty Nine Crores Only.

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