RATING RATIONALE

4 Oct 2019

Alang Ship Breaking Corporation

Brickwork Ratings reaffirms the long term rating/ revises the short term ratings for the Bank Loan Facilities of ₹ 39 Crores of Alang Ship Breaking Corporation.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sept-2018)	Present
Fund based	4.00	4.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook : Stable	BWR BB (Pronounced as BWR Double B) Outlook : Stable Reaffirmed
Non Fund Based	35.00	35.00	Short Term	BWR A4 (Pronounced as BWR A Four)	BWR A4+ (Pronounced as BWR A Four Plus) Upgraded
Total	39.00	39.00	INR Thirty Nine Crores Only		

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

RATING ACTION / OUTLOOK

BWR has taken a Standalone view of Alang Ship Breaking Corporation and essentially relied upon the audited financial results up to FY18, Management certified Provisional financials of FY19, and information/clarification provided by the Firm's management.

The rating upgrade factors the revenue visibility in FY20 backed by purchase of four small and mid sized ships, improvement in Y-O-Y scale of operations and profit margins. The rating also factors extensive experience of the promoters in the ship breaking business, and locational advantage to the firm. The rating is, however, constrained by high working capital intensive nature of the business, vulnerability of 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 firm is exposed to intense competition from a large number of players operating in Bhavnagar, Gujarat as well as international competitors and the regulatory risks due to environmental issues.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR believes Alang Ship Breaking Corporation's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged improvement in profitability results in an improved financial risk profile. The outlook may be revised to Negative if revenue and profitability lower than expected and further deterioration in working capital cycle etc.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced Management:** - The firm was promoted by Mr. Mahesh Patel, who has an 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.

- **Moderate financial risk profile** : The financial risk profile of the firm is moderate; marked by low gearing of 0.31x & modest tangible net worth of Rs.25.94 crores as on 31st March, 2019., However, the absence of any major long term liabilities and relatively small fund based limits helps the company to maintain comfortable leverage position. Debt protection metrics of the company has also remained at comfortable levels. In the last couple of years, the firm has consistently procured ships, which has witnessed the improvement in the scale of operation. During the last two years, the firm has purchased a ship worth Rs. 63.20 Crores, which provides revenue visibility for near term.

Credit risks:

- **Ship purchases are entirely backed by LCs**: The entity's high dependence on LC - backed purchasing is reflected by TOL/TNW at 2.07 times for FY18 and 0.82 times for FY19 (prov).The firm's working capital cycle is elongated as reflected increase number of inventory holding days from 75 days in FY18 to 97 days in FY19 (Prov), however, the receivable days are comfortable at 39 & 29 in FY18 & FY19 (Prov.) respectively.

- **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 significantly improved i.e ISCR @0.84x in FY18 to 2.13x in FY19 (Prov).

- **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 constitution as 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: The rating may be upgraded if there is a significant improvement in operating income, profit margins & debt protection metrics, infusion of funds and firm's ability to effectively manage its working capital requirements.

Negative: The rating may be downgraded if the leverage deteriorates, withdrawal of capital by partner's and more than 20% fall in revenues and margins.

LIQUIDITY POSITION
The firm's liquidity position remains average characterised by adequate cash accruals from business to support its debt repayments, and average surplus available in the form of inventory, receivables and FDs to honour the LC payments with high average utilisation of working capital bank limits. The Net Cash Accruals improved in FY19 (Prov) to Rs.2.41 Crores as compared to Rs.0.74 Crores in FY18..

COMPANY 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 (in ₹ Cr)
The firm reported a PAT of Rs. 0.31 Crs on a total operating income of Rs. 36.92 Crs as per the audited financials for FY18 against a PAT of Rs. 0.30 Crs on a TOI of Rs. 34.82 Crs as per audited financials for FY17.

As per unaudited & management certified provisional financials for FY19, the company has achieved an operating income of Rs. 47.88 Crs.

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Crs	36.92	34.82
EBITDA	₹ Crs	1.66	1.01
PAT	₹ Crs	0.56	1.41
Tangible Net worth	₹ Crs	11.24	11.14
Total Debt/Tangible Net worth	Times	0.31	0.30

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED- Not Applicable

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - CARE vide its press release on 1st July, 2019 has put the ratings on issuer Non- Co-operation on account of non submission of information.

RATING HISTORY

Facility	Current Rating (2019)			Rating History		
	Type	Amount (₹ Crs)	Rating	5Sept2018	2017	2016
Fund Based:	Long Term	**4.00**	BWR BB (Pronounced as BWR Double B Plus) Outlook : Stable	BWR BB (Pronounced as BWR Double B) Outlook : Stable	Not Rated	Not Rated
Non Fund Based:	Short Term	**35.00**	BWR A4+ (Pronounced as BWR A Four Plus)	BWR A4 (Pronounced as BWR A Four)	Not Rated	Not Rated
Total		**39.00**	**INR 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 Limit	4.00	-	4.00
2	State Bank of India	**Non Fund Based:** Foreign Letter of Credit Credit Exposure Limit	-	34.25 0.75	34.25 0.75
TOTAL					**39.00**

Total Rupees Thirty Nine Crores Only.

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