Rating Rationale

5 Sep 2018

Alang Ship Breaking Corporation

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

Particulars

Facility..	Amount (₹ Crs)	Tenure	Rating*
Fund based	4.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook : Stable
Non Fund Based	35.00	Short Term	BWR A4 (Pronounced as BWR A Four)
Total	39.00	INR Thirty Nine Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results up to FY17, Provisional financials of FY18, Projected financials of the company up to FY19 and information/clarification provided by the Firm's management.

The rating has factored in the extensive experience of the promoters in the business and the locational advantage to the firm; situated in Bhavnagar, Gujarat, and comfortable liquidity. The rating is, however, constrained by weak financial risk profile, thin profit margins and the profit margins are vulnerable to volatility in prices of steel and adverse fluctuations in forex rates; though the same is mitigated to the extent of hedging undertaken by the firm.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Management** : The ratings continue to reflect the promoters extensive experience of three decades in the industry

- **Financial support by sister concern and moderate TNW:** The firm's Tangible net worth is Rs. 11.19 Crs in FY18 (prov. fin.) and USL by associate concern P Patel Ship Breaking Company of Rs. 3.42 Crs.

- **Visibility of future revenues :** It takes around four to five months on an average to completely dismantle a ship and generate revenue. The firm's revenue has decreased since 2016-17 due as the firm has not purchased any ship during that period of time. However, The Firm has purchased three ships since 2017-18 worth Rs. 57.85 Crs, which shows the visible improvement in coming years.

- **Comfortable Liquidity Position** : Firm's liquidity is comfortable with Current Ratio of 1.60 times in FY18. Efficient management of Working capital cycle as reflected in lower number of inventory & Receivable holding days to 78 days and 45 respectively days as per provisional financials for FY18.

Credit risks:

- **Ship purchases are entirely backed by LCs :** The Firm's high dependence on LC - backed purchasing increased the TOL/TNW from 0.02 time for FY17 to 2.07 times for FY18.

- **Weak Financial risk profile due to vulnerability in Profit margins** : Operating profit margins are thin due to high raw material cost, further on account of that debt protection metrics are weak i.e ISCR @0.65x in FY17 & 0.79x in FY18.Vulnerability of margins to steel price fluctuation. 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.

- **Profitability susceptible to fluctuations in foreign exchange rates** : The firm purchases ship in foreign currency under an LC arrangement, where the usance period is around 120-270 days. Since ship breaking entities usually have a long payment period on LC-backed purchases, any depreciation of the Rupee increases the amount payable to honour the same LC. While the Firm hedges such risks by booking forward contracts, it remains exposed to adverse movement in exchanges rates.

- **Inherent risk associated being a partnership firm :** The rating is constrained by an inherent risk of withdrawal of the capital being a partnership firm.

Analytical Approach

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 Outlook: *Stable*

BWR believes the **Alang Ship Breaking Corporation** business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

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.

Financial Performance

The company reported net sales of Rs. 35.15 Crs and a PAT of Rs.0.41 Crs as per the audited financials for FY17 against the sales of Rs. 39.66 Crs and a PAT of Rs. 0.43 Crs in FY16.

As per unaudited & management certified provisional financials for FY18, the company has achieved an operating income of Rs.31.57 Crs.

Rating History for the last three years

S. No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1	**Fund Based:** Cash Credit Limit	Long Term	4.00	BWR BB (Pronounced as BWR Double B) Outlook : Stable	NA	NA	NA
2 3	**Non Fund Based:** Foreign Letter of Credit Credit Exposure Limit	Short Term	34.25 0.75	BWR A4 (Pronounced as BWR A Four)	NA	NA	NA
	Total		**39.00**	**₹ Thirty Nine Crores Only**			

Status of non-cooperation with previous CRA (if applicable)-Not Applicable

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	35.15	39.66
EBITDA	₹ Cr	1.01	1.28
PAT	₹ Cr	0.41	0.43
Tangible Net worth	₹ Cr	11.14	10.30
Total Debt/Tangible Net worth	Times	0.30	0.29
Current Ratio	Times	54.22	1.71

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
Sushil Kumar Chitkara *Deputy General Manager- Ratings* analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media
The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a

meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.
BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER