

RATING RATIONALE

30 Sep 2019

Atam Manohar Ship Breakers Pvt Ltd

Brickwork Ratings upgrades the long term rating and reaffirms the short term rating for the Bank Loan Facilities of ₹. 69.85 Crores of Atam Manohar Ship Breakers Pvt Ltd (AMSBPL or the company).

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2018)	Present
Fund based	6.00	6.00	Long Term	BWR B+/Stable	BWR BB-/Stable Upgraded
Non Fund Based	63.85	63.85	Short Term	BWR A4	BWR A4 Reaffirmed
Total	69.85	69.85	INR Sixty Nine Crores and Eighty Five Lakhs 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:

The upgrade in the long term rating of the company reflects the improvement in AMSBPL's scale of operations in FY19 as against FY18 and year on year improvement in operating profitability margins from past three years. The rating continues to factor in more than 2 decades of experience of the promoters in the ship breaking industry and average financial risk profile marked by moderate debt protection metrics.

These strengths are partially offset by the relatively modest size of operations of the company, cyclicity associated with the ship breaking business, high reliance on LC backed purchases,



exposure to environmental and regulatory risk and susceptibility of profitability margins to adverse exchange rate fluctuations and volatile metal prices.

BWR believes the Atam Manohar Ship Breakers Pvt Ltd business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- Improvement in AMSBPL's scale of operations by ~39% in FY19 as against FY18 and year on year improvement in operating profitability margins from past three years i.e. 2.43% in FY17 to 2.47% in FY18 to 3.72% in FY19.
- Extensive experience of the promoters with more than 2 decades of experience in the ship breaking industry.
- Average financial risk profile marked by moderate debt protection metrics reflected by ISCR of 1.99 Times in FY19 and DSCR of 1.29 times in FY19 as against ISCR of 2.31 Times in FY18 and DSCR of 1.33 Times in FY18. There is deterioration in the debt protection metrics of the company mainly on account of the increase in the long term borrowings from related parties by ~Rs. 4 Crs in FY19, which is interest bearing in nature. However as informed by the company the same is expected to be maintained in the business over the medium term.

Credit Risks:

- Cyclicity associated with the ship breaking business, where the prospects are linked to international shipping business.
- High reliance on LC backed purchases leading to TOL/TNW of 3.46 Times in FY19(A) and TOL/TNW stood at 3.54 times in FY18(A).
- Exposure to environmental and regulatory risk that is inherent in the ship breaking business and cyclical nature of the end user (steel) industry, which could impact the offtake and revenue realization.
- Susceptibility of profitability margins to adverse exchange rate fluctuations and volatile metal prices.



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: Improvement in the scale of operations by about 10-15% annually on sustainable basis coupled with expansion in margins of about 200-300 basis points leading to an improvement in the credit metrics will be positive for the ratings.

Negative: Deterioration in the scale of operations and Decline in operating margins by around 200-250 bps or stretch in working capital cycle will be negative for the ratings.

LIQUIDITY POSITION: Stretched

The current ratio of the company stood at 1.34 times in FY19 (A) as against 1.24 times in FY18. Cash & cash equivalent in FY19 stood at Rs. 12.88 Crs which included cash on hand of Rs. 0.02 Cr and FDRs of Rs. 8.82 Crs having maturity of less than 3 months and FDRs of Rs. 4.04 Crs having maturity of more than 3 months.

COMPANY PROFILE

Established in 1997, Atam Manohar Ship Breakers Pvt. Ltd. (AMSBPL) is engaged in ship breaking and recycling business. The Company's registered office is at Bhavnagar, Gujarat and operates in Alang (plot of 3700 sq mts). The Company is promoted by Mr. Anil Jain having extensive experience in the business. The company has a capacity to break ships ranging up to 50000 tonnes.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Income	Rs. Crs	116.90	83.83
Ebitda	Rs. Crs	4.35	2.07
PAT	Rs. Crs	1.25	0.86
TOL/TNW	Times	3.46	3.54
Current Ratio	Times	1.34	1.24

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY:

SI. No.	Instrument/Facility	Current Rating (2019)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	Sep-2018	Nov-2017	Sep-2016
1	Cash Credit	Long Term	6.00	BWR BB-/Stable Upgraded	BWR B+/A4/Stable	BWR B+/A4/Stable	BWR B+/A4/Stable
2	Letter of Credit	Short Term	62.50	BWR A4 Reaffirmed			
3	Credit Exposure Limit	Short Term	1.35	BWR A4 Reaffirmed			
Total			69.85	(INR Sixty Nine Crores and Eighty Five Lakhs 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](#)
- [Services Sector](#)

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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	Cash Credit	6.00	-	6.00
		Letter of Credit	-	62.50	62.50
		Credit Exposure Limit	-	1.35	1.35
TOTAL					69.85



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