Rating Rationale

Brickwork Ratings assigns 'BWR BB-' & 'BWR A4' for the Bank Facilities of ₹94.68 Cr of Atam Manohar Ship Breakers Pvt. Ltd

Brickwork Ratings has assigned **BWR BB-** (Pronounced BWR Double B Minus) **Rating**[1] with Stable Outlook for the long term bank facilities of ₹9 Cr and **BWR A4** (Pronounced BWR A Four) for short term bank facilities of ₹85.68 Cr of Atam Manohar Ship Breakers Pvt Ltd (AMSBPL)

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based **Cash Credit**	**9.00**	**Long Term**	**BWR BB-** (Pronounced BWR Double B Minus) **(Outlook – Stable)**
Non Fund Based **Letter of Credit** **CEL**	**84.00** **1.68**	**Short Term**	**BWR A4** (Pronounced BWR A Four)
Total	**94.68**	**(INR Ninety Four Crores and Sixty Eight Lakhs only)**	

The rating inter alia, factors below average financial profile financial profile, exposure to foreign exchange fluctuations, and highly cyclical and fragmented nature of the industry. The rating draws strength from promoters' experience in the ship breaking business and healthy growth prospects in the industry. Improvement in profitability and gearing levels as envisaged, ability to manage regulatory changes and foreign exchange fluctuations will be key rating sensitivity factors.

Background

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 has a capacity to break ships ranging up to 50000 tonnes. The company breaks ships aggregating to ~40000 tonnes annually, i.e ~3-5 vessels p.a. The company is promoted by Mr. Anil Jain who has extensive experience in the business.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Operations

AMSBPL imports ships for breaking directly from the seller. The average time taken from ordering to complete breaking is about four to six months. Company opens foreign currency letter of credit for import of ship. The LC's have a stipulated repayment schedule. The company presently has 2 ships for breaking - Eurocargo Africa and Kotaveravan.

The company sells the steel from breaking to steel rolling mills and dealers in the region with daily sales of ~150-250 tonnes.

Financial Performance

AMSBPL registered a 25% revenue growth with net sales of ₹171.84 crs in FY14 from ₹137.70 crs in FY13 on the back of higher volumes and better realisations. However rising material costs lead to decline in EBITDA to ₹5.62 crs from ₹11.40 crs in FY13. Company is exposed to risks from foreign exchange fluctuations and registered loss on foreign exchange fluctuations of ₹8.55 crs in FY13 and ₹4.27 crs in FY14. The company covers its forex exposure a few days / weeks prior to the payment date based on the price movement. Profit after Tax (PAT) for the year stood at ₹1.29 crs as compared to ₹0.71 crs in FY13 benefitting from lower exchange loss in FY14. Pressure on margins is expected to continue as company is exposed to foreign exchange fluctuations and regulatory changes in the ship breaking industry. Interest cover was very weak at 0.97x in FY14. Company has an extended working capital cycle with high inventory as compared to payables. As on March 31, 2014, debt to net worth was 0.90x and net worth was ₹11.51 crs. For three months ending June 30, 2014, company registered sales of ₹43.16 crs as compared to ₹25.88 crs in Q1FY14.

Outlook - Stable

AMSBPL benefits from experienced promoters in the ship breaking industry. Improvement in financial profile as envisaged in a highly fragmented and cyclical industry will be key sensitivity factors.

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