

Rating Report

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

Brickwork Ratings has assigned 'BWR BB-' **Ratings**¹ for the long term Bank Facilities of ₹ 9 Cr and 'BWR A4' for short term Bank Facilities of ₹ 85.68 Cr of Atam Manohar Ship Breakers Pvt. Ltd. (AMSBPL).

Facility	Limits (₹ Cr)	Tenure	Rating
<u>Fund Based</u>			BWR BB- (Pronounced BWR Double B Minus) (Outlook : Stable)
Cash Credit	9.00	Long Term	
<u>Non Fund Based</u>			BWR A4 (Pronounced BWR A Four)
Letter of Credit	84.00	Short Term	
CEL	1.68		
Total	94.68	(Rupees 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.

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.

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

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.

EBITDA margin declined to 3.27% in FY14 from 8.28% in FY13 while PAT margin improved to 0.75% in FY14 from 0.51% in FY13. EBITDA margins saw sharp increase in FY13 due to fall in material costs while PAT margin saw decline due to high forex loss. 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 networth was 0.90x and networth 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.

Credit Risk Assessment

AMSBPL operates in a highly cyclical and fragmented industry which is exposed to currency fluctuations. The company has been hit by significant forex losses faces in the last few years. The company's financial profile is below average with low margins, weak debt protection metrics and small size of networth. Company's ability to manage risk from forex fluctuations, and improve margins and networth as envisaged coupled with Improvement in profitability and gearing levels as envisaged will be key rating sensitivity factors.

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.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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Annexure – Abridged Key Financials – AMSBPL

Balance Sheet		₹ Crore		
As on March 31,	2012	2013	2014	
	Audited	Audited	Audited	
Liabilities				
Share capital	4.47	4.97	5.09	
Reserves and Surplus	3.72	4.92	6.43	
Long-Term Borrowings	3.24	2.78	1.97	
Deferred tax Liabilities (Net)	0.10	0.12	0.13	
Other Long Term liabilities	0.30	0.31	0.04	
Short-Term Borrowings	10.49	5.16	8.38	
Trade Payables	69.56	21.39	51.72	
Total Liabilities	92.60	40.27	74.80	
ASSETS				
Net Fixed assets	1.31	1.25	1.21	
Non-Current Investments	1.94	1.81	1.73	
Long Term Loans and Advances	0.12	0.03	0.12	
Other Non-Current Assets	0.04	0.13	0.00	
Current Investments	0.00	0.00	0.00	
Inventories	83.53	29.48	63.37	
Trade Receivables	4.59	6.35	7.58	
Cash and Cash Equivalents	0.21	0.75	0.52	
Short-Term Loans and Advances	0.03	0.08	0.04	
Other Current Assets	0.84	0.37	0.21	
Total Assets	92.60	40.27	74.80	

Income Statement		₹Crore		
For the year ending March 31,	2012	2013	2014	
Result Type	Audited	Audited	Audited	
Net Sales	129.87	137.70	171.84	
Total Operating Income	129.87	137.70	171.84	
Operating Expenses	127.21	126.30	166.22	
OPBDIT	2.65	11.40	5.62	
Depreciation	0.06	0.07	0.06	
Interest and Finance Charges	3.53	11.48	5.80	
Non-Operating Income	2.08	1.17	2.23	
PBT	1.14	1.03	1.98	
Provision for Taxes	0.34	0.32	0.69	
PAT	0.81	0.71	1.29	

Ratios

	2012	2013	2014
Tangible Net Worth (₹ Cr)	8.19	9.88	11.51
Total Debt/TNW (x)	1.68	0.80	0.90
ISCR (x)	0.75	0.99	0.97
Net Cash Accruals/Total Debt (x)	0.23	1.18	0.54
Net Profit Margin (%)	0.62	0.51	0.75
Operating Profit Margin (%)	2.04	8.28	3.27
ROCE (%)	15.57	56.71	27.81
Current Ratio (x)	1.10	1.36	1.17