

Press Release

Bohra Exports Private Limited

January 23, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs115.00 Cr. (Enhanced from Rs.96.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.115.00 crore bank facilities of Bohra Exports Private Limited (BEPL). The outlook is '**Stable**'.

Mumbai based, Bohra Exports Private Limited (BEPL) was incorporated in 1986 by Mr. Pratap Singh Bohra. The company is engaged in ship breaking and asset stripping/dismantling business. The company undertakes ship recycling activities at its 3015 square meters plot at Alang, Gujarat.

Analytical Approach

Acuite has considered standalone business and financial risk profile of Bohra Exports Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Established presence of promoters in ship recycling industry**

The promoters are engaged in ship recycling and asset stripping business for more than two decades. It has recycled more than 50 ships till date. The promoters are well versed with price dynamics of ship breaking industry and has developed healthy relations with various ship aggregators, which helps in buying ships at competitive rates depending on the market scenario. Further, the company has location advantage as its operations are conducted at Alang, Gujarat, which is the world's biggest ship breaking yard ensuring easy availability of the labour at cheaper prices as well as ready market for selling the scrap.

- **Optimal management of LC maturity**

BEPL procures ships for dismantling against Letter of Credit (LC) facility, which keeps liquidating in tranches. The LC payment is done through sales proceeds from selling the scrap, which starts from first month of dismantling activity, ensuring that the group has regular cash inflow and does not end up with large inventory to sell around the LC maturity. The company is currently dismantling the power plant which is in advance stage of completion and also purchased new ship for ~Rs.60.00 crore (against LC of 360 days) which will reach its yard by Feb 2020 and to be dismantled within one year tenure.

Acuite believes that BEPL's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

- **Moderate financial risk profile**

BEPL's financial risk profile is moderate marked by healthy net worth, moderate gearing and debt protection measures. The net worth improved to Rs.24.99 crore as on March 31, 2019 from Rs.16.06 crore as on March 31, 2018 on account of quasi equity infusion by the promoters of Rs.8.00 crore in FY2019. The gearing deteriorated to 2.73 times as on March 31, 2019 as against nil as on March 31, 2018 due to infusion of unsecured loan by promoters during FY2019. The total debt of Rs.68.34 crore consists of Rs.47.49 crore of working capital borrowing and Rs.20.85 crore of unsecured loans from promoters. Further, the total outstanding LC limit as on March 31, 2019 is nil.

The interest coverage ratio stood at ~1.68 times in FY19 as against 1.95 times in the previous year. TOL/TNW remained high at 3.75 times as on March 31, 2019 as against 3.22 times in the previous year. Acuité believes that the financial risk profile will remain moderate over the medium term on account of fluctuating revenue profile and moderate debt protection metrics.

Weaknesses

- **Working capital Intensive nature of business:**

The ship for recycling is purchased in one go, by opening LC in favour of seller, while realization through sales proceeds may take 3 to 9 months depending on the size of ship. This gap between purchases of ship and cash realization results in high inventory. The gross current asset increased to 823 days as on March 31, 2019 from 249 as on March 31, 2018. This was mainly on account of purchase of power plant in December 2018 leading to higher inventory holding as on March 31, 2019.

Acuité believes being into shipping industry the operations of the company will remain working capital intensive as high inventory holding period is inherent in this industry.

- **Exposure to environmental regulatory risk**

BEPL is exposed to environmental and regulatory risk as the ship-scraping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the labors and violation of human rights. Stringent environmental regulations may adversely impact the ship-breaking industry, thereby impacting the growth of the company.

- **Exposed to cyclicity in the industry, volatility in the steel scrap prices and forex rates and intense competition**

BEPL is exposed to inherent cyclicity in the steel sector which could affect both ship acquisition cost and realisation from scrap. The volatility in steel prices exposes the company to any adverse price movement on the uncut ship inventory as well as unsold inventory of steel scrap. The company also faces increased competition from the ship breaking yards of neighboring countries such as China, Bangladesh and Pakistan. Further, it is also exposed to volatility in the forex rates for unhedged portion of the LC.

Liquidity Position: Adequate

BEPL has adequate liquidity marked by healthy net cash accruals against minimal maturing debt obligations. The company generated cash accruals of ~Rs.0.85 - 1.24 crore during the last three years through 2018-2019, while there was Rs.0.10 crore of maturing debt obligations in FY2018 only. The cash accruals are estimated to remain at around Rs.2.00-3.00 crore during 2020-22. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 823 in FY 2019. BEPL maintains unencumbered cash and bank balances of Rs.25.93 crore as on March 31, 2019. The current ratio stood moderate at 1.59 times as on March 31, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals but is highly dependent on the sale of scrap as per the LC retirement cycle.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook in the medium term on account of the promoter's extensive experience in the ship breaking business. The outlook may be revised to 'Positive' in case of higher than expected increase in revenues and operating margins while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or stretched liquidity position on account of any adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates. Further, any fund diversion in unrelated businesses will have negative bias on the rating.

Rating Sensitivities

- Efficient management of working capital cycle resulting in timely buildup of liquid fund for LC retirement.
- Adverse movement in the price of steel scrap, or unfavorable movements in foreign exchange rates.

Material Covenants:

None.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	46.50	95.56
PAT	Rs. Cr.	0.93	1.34
PAT Margin	(%)	2.00	1.40
Total Debt/Tangible Net Worth	Times	3.75	3.22
PBDIT/Interest	Times	1.68	1.95

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Jan-2020	Cash Credit	Long Term	11.00	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	85.00*	ACUITE A3 (Reaffirmed)
05-Nov-2018	Cash Credit	Long Term	11.00	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	85.00*	ACUITE A3 (Reaffirmed)
01-Nov-2018	Cash Credit	Long Term	11.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	6.50	ACUITE A3 (Assigned)

Sublimit within LC facility*

Letter of guarantee Rs. 85.00 crore.

Letter of credit Rs. 50.00 crore for dismantling of old factories/units.

Letter of credit Rs. 25.00 crore for import/trading of scrap.

Cash credit Rs. 50.00 crore for dismantling of old factories/units.

Cash credit Rs. 25.00 crore for import/trading of scrap.

Cash credit Rs. 10.00 crore for payment of security deposit/initial down payment of bid.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00 (Enhanced from Rs.11.00 Cr.)	ACUITE BBB-/ Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00* (Enhanced from Rs.85.00Cr.)	ACUITE A3 (Reaffirmed)

Sublimit within LC facility*

Letter of guarantee Rs. 85.00 crore.

Letter of credit Rs. 50.00 crore for dismantling of old factories/units.
 Letter of credit Rs. 25.00 crore for import/trading of scrap.
 Cash credit Rs. 50.00 crore for dismantling of old factories/units.
 Cash credit Rs. 25.00 crore for import/trading of scrap.
 Cash credit Rs. 10.00 crore for payment of security deposit/initial down payment of bid.

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About Acuité Ratings & Research:

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