

Press Release

Bohra Exports Private Limited

March 05, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 115.00 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 the 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**'.

About the Company

Mumbai based Bohra Exports Private Limited (BEPL) was incorporated in 1986 by Mr. Pratap Bohra. It was initially engaged in trading of commodities and chemicals. In 1992, it entered in the business of ship breaking. The company has also ventured into purchasing assets for recycling and asset stripping. The company undertakes ship recycling activities at its 3015 sq. meters plot at Alang, Gujarat. It has a capacity of recycling 60,000 tons per annum.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BEPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established presence of promoters in ship recycling industry and location advantage

The management of the company is engaged in ship recycling and asset stripping business for more than two decades. It has recycled over 50 ships till date. The long presence of the management in the industry has resulted in establishing healthy relationship with suppliers and customers. 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.

• Moderate financial risk profile

The financial risk profile continues to remain moderate marked by moderate net worth, gearing and debt protection measures. The tangible net worth stood at Rs. 26.60 Crore as on March 31, 2020. (FY19: Rs. 24.99 Cr and FY18: 16.06 Cr). The gearing stood moderate at 2.80 times as on March 31, 2020 as against 2.73 times as on March 31, 2019. The net cash accruals stood at Rs. 1.94 Crore for FY2020 as against no long term debt repayment obligation. The interest coverage ratio (ICR) stood at 1.77 times in FY2020 (FY19: 1.68x and FY18: 1.95x). The total outside liabilities to tangible net worth stood at 2.88 times as on March 31, 2020 (FY19: 3.75x and FY18: 3.22x). Acuite believes that the financial risk profile of the company is expected to remain moderate with regular accretions to reserves and no major debt funded capital expenditure planned in near term.

• **Efficient management of LC maturity:**

BEPL procures ships for dismantling against LC, which have a maturity cycle of up to 270-360 days. The LC sanction terms mention the maturity dates and the quantum of fixed deposits to be built up during the period. The schedule is followed diligently, which to a large extent ensures that the entity has regular cash inflow to honor LC commitments and does not end up with huge inventory to sell off around LC maturity.

• **Stable financial performance with satisfactory profitability albeit moderation expected in FY21**

The company has reported an increase in revenue in FY2020 at Rs. 78.42 Crore as against Rs.46.59 Crore in FY2019 on the back of increase in sales proceeds from dismantling of the plant. The company, although, has witnessed a marginal decline in operating margins in FY2020 to 5.19% (FY19: 5.93% and FY18: 3.78%), however, has witnessed an increase in absolute EBIDTA to Rs. 4.07 Crore in FY2020 (FY19: 2.76 and FY18: 3.61) on the back of increased operations given promoter's established presence in the industry. However, the total operating income of the company is estimated to dampen in FY21 owing to covid-19 induced circumstances. However, the company is expected to maintain stable profit margins by reducing asset procurement costs and overheads.

Weaknesses

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

The ship for recycling is purchased in one go, by opening LC in favor of seller, while realization through sales proceeds takes 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 (GCA) days have reduced to 353 days as on March 31, 2020 from 823 days as on March 31, 2019. The reduction is mainly on account of selling the plant inventory in FY2020 leading to reduction in inventory holding days to 309 as on March 31, 2020 from 540 days as on March 31, 2019. However, Acuite believes that 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 risks related to cyclical and fragmented industry:**

The industry is cyclical and the viability of the business is inversely correlated with the international freight index. The company has to compete with small players during limited availability of vessels. Domestic players also face competition from ship-breakers in China, Bangladesh, and Pakistan.

• **Exposure to volatility in foreign exchange fluctuation risk and scrap rates:**

The ship purchases are in foreign currency while realization is in domestic currency (Indian Rupees). Though the company uses forwards to hedge its forex risk, the cover is partial and taken based on management expectations on forex movement over a long duration of LC ranging from 90 to 270 days. Also, the scrap rates are volatile over the period of ship breaking which impacts the margin.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- 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

Liquidity Position: Adequate

The company maintains a stable liquidity position marked by net cash accruals of Rs. 1.94 Crore and Rs. 1.24 Crore as on financial year ended March 31, 2020 and March 31, 2019 respectively against no major long term debt repayment over the same period. The current ratio of the company stood at 1.40x as on March 31, 2020 and NCA/TD stood at 0.03 times as on March 31, 2020 and 0.02 times in the

previous year. The company had cash and bank balances of Rs. 0.29 Cr as on March 31, 2020. The average working capital utilization for past 12 months ended January 31, 2021 is less than 1%.

Outlook: Stable

Acuite believes that BEPL will maintain a 'Stable' outlook in the medium term on account of the management's extensive experience in the ship breaking business and comfortable cash flows. 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 elongation of the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	78.42	46.50
PAT	Rs. Cr.	1.61	0.93
PAT Margin	(%)	2.05	2.00
Total Debt/Tangible Net Worth	Times	2.80	2.73
PBDIT/Interest	Times	1.77	1.68

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jan-2020	Cash Credit	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	100.00*	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*

Forward sales contract Rs. 100.00 Crore to hedge forex risk.

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	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00*	ACUITE A3 (Reaffirmed)

Sublimit within LC facility*

Forward sales contract Rs. 100.00 Crore to hedge forex risk.

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.

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About Acuité Ratings & Research:

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