

Sadhav Shipping Limited

April 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	43.42	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	16.58	CARE A3	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sadhav Shipping Limited (SSL) continue to derive strength from long track record of the promoters in the shipping industry, comprehensive product portfolio in terms of services offered, established relationship with reputed customers, healthy order book position and having long to medium term contracts signed with some of the key customers for vessel deployment providing revenue visibility and moderate financial risk profile marked by above average profitability margins.

However, the rating is tempered by modest scale of operations, client concentration risk, Project tender based nature of business, operations remain susceptible to volatility in charter rates and risk of non-renewal of contract or vessels not being deployed for a longer period of time and presence in competitive, seasonal & cyclical industry with direct linkages to prevailing prospects in oil & gas industry.

Rating sensitivities: Factors likely to lead to rating actions:

Positive factors

- Consistently maintain a steady scale of operations above Rs. 150 crores
- Improvement in charter yields garnered for new contracts resulting in significant higher cash accruals than envisaged levels

Negative factors

- Substantial decline in revenue and profitability due to less than expected orders received, cancellation of existing orders/project closures or severe economic slowdown affecting offshore activities
- Deterioration in overall gearing to above 1.5x

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is expected to exhibit steady growth in its scale of operations and improvement in margins on the back of its healthy order book position resulting into steady financial risk profile.

Key Rating strength

Experience of the promoters in the offshore shipping industry: The promoter of SSL, Captain K.K. Choudhury has extensive experience in the offshore industry. He was into merchant navy and worked for Shipping Corporation of India Ltd and ONGC for more than two decades. Captain K.K.Choudhary started his business in lighterage operations and gradually shifted to more lucrative operations like oil spillage, anchor handling etc. He is assisted by Mr. S. C. Choudhury, a retired bureaucrat with Customs & Central Excise with above four decades of experience in administrative, customs & excise laws. Mrs. Sadhana K. Choudhury, hold post-graduation in Arts and has more than a decade of teaching experience. She has been associated with SSL since inception and manages the administration and Public relation departments.

Low age profile of its fleet leading to higher operating efficiency: The fleet of the company is relatively new with an average age of about 10-12 years as on March 29, 2023. Owing to lower age of the vessel, the vessels continue to remain a preferred choice especially amongst the private ports and other offshore services companies. Furthermore, the fleets also garner a premium in chartering rates as compared to the higher age vessels. The lower age profile of the vessels also means limited maintenance and higher re-sale value. The company operates & manages a fleet of 32 vessels of which 16 are owned by itself whereas the rest are either chartered from third party owners or owned by clients directly.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy Order book position: The company has bagged two consecutive high value orders from ONGC. The company has also bagged lucrative contracts in the port services sector with existing clients viz. Paradip Port Trust and Mumbai Port Trust. Also, have received extensions for existing contracts of Oil Spill Response and Speed Boats in Mumbai, Paradip and Vizag. Further new Long-term Contracts worth Rs 175.00 Crores was bagged during the last few years. Thus, the total order book position held by company till March 2023 stood at Rs. 310.00 crore. The same provides near to medium term revenue visibility.

Established relationship with leading ship liners, ports and exploration companies : Over the track record of 20 years of operations, SSL has developed established relations with leading shipping companies and offshore services providers like ONGC Paradeep port Trust, Mumbai Port trust, Goa Shipyard, New Mangalore Port Trust, Shipping Corporation of India etc.

Above average yet fluctuating profit margins: The PBILDT margin of SSL stood in the range of 17-29% over FY19-FY22. The PBILDT margin of the company declined in F222 and stood at 17.58% (vis-à-vis 28.63% in FY20 and 20.64% in FY21) due to dry docking expense incurred on vessel coupled with increase in vessel operating cost in the FY22 due to higher vessel hire charges for executing the new contract. Further, the company is expected to earn better margins in coming year owing to addition of high margin new contract awarded for vessel Canara Pride which was acquired in FY23. This vessel was earlier taken on charter by SSL for execution of on ONGC contract. The acquisition of this vessel has resulted in reduction in charter expenses which will support improved operating profitability for the company. The PAT margin also stood in the range of 4-6% during FY19-FY22.

Key Rating Weaknesses

Modest revenue yet stability with long term nature of contracts and client concentration risk: Since the major revenue attributed by ONGC, the revenue of SSL has directly link to order execution of ONGC contract during the year. The company is dealing with ONGC since inception and has long term contract with them with fetches a major share of revenue for SSL. Although the scale of operations continues to remain modest, the same has increased by 14.82% in FY22 and stood at Rs. 69.55 crore (vis-à-vis Rs. 61 crore in FY20 and 60.57 crore in FY21), there has been ramp up in revenue post covid. Further during 9MFY23 company has achieved sales of Rs. 55.10 crore and till March 29, 2023 it has posted revenue of Rs. 70 crore. Furthermore, it has bagged new contracts from ONGC during the past few years which gives the long term revenue visibility in projected years. The tangible net worth of the company remained moderate at Rs. 35.03 crore in FY22 (vis-a-vis Rs. 32.04 crore in FY21).

Of the total revenue generated by SSL, about more than 80% of revenue generated from top 5 customers (ONGC alone contributed about 50% of the revenue). hence the customer concentration risk exists. However, since these customers are oil government entities such as PSUs, port authorities etc. thus counterparty risk is mitigated to a large extent.

Moderate financial risk profile: The capital structure of the company which remained comfortable with overall gearing standing below unity at 0.59x in FY22 (vis-à-vis 0.55x in FY21) is expected to deteriorate as the company is undertaking debt funded capex in FY23. As on December 31 2022, the overall gearing has deteriorated to 0.93x. Moreover, debt coverage indicators which stood moderate with TDGCA at 2.21x in FY22 (vis-à-vis 1.63x in FY21) and PBILDT interest coverage at 5.37x in FY22 (vis-à-vis 5.81x in FY21) is expected to witness moderation in FY23. Thus, the financial risk profile is considered to remain moderate. Going forward, with no major capex planned, the same is not expected to weaken owing to accretion of profit to reserves.

Foreign exchange fluctuation risk: The company have its contracts with ONGC and other major customers in dollars. Also, its repayment obligation is in dollars. Hence the company has naturally hedge position whereby risk arises out of foreign exchange fluctuation stood at minimal. However, the profitability remains susceptible to fluctuation in forex. During FY22 company has forex loss of Rs. 0.29 crore.

Presence in competitive, seasonal & cyclical industry with direct linkages to prevailing charter rates and prospects in oil & gas industry: SSL operates in the shipping industry which is fragmented with large number of small players resulting into intense competition. Further, the industry is also seasonal & cyclical in nature with direct linkages to prevailing prospects in oil & gas industry. The volatility of oil prices affects the charter rates of offshore vessels. The company's profitability and ability to repay debt is affected by the charter rates at which it can redeploy its vessels. The company is exposed to seasonality in the shipping industry, since the offshore personnel transportation is muted during the monsoons. Moreover, the oil & gas exploration activities are also prone to cyclicity, thereby having an adverse bearing on the dealings of the company.

Risk of non-renewal of contract or vessels not being deployed for a longer period: SSL is also exposed to risk of non-renewal of multi-year contracts upon the conclusion of their tenure, coupled with risk of non-deployment of owned fleet for a longer period. Moreover, the tender based bidding process also invites competition from other small & large players, thereby exposing the company to the aforementioned risks.

Liquidity position: Adequate

The liquidity position of SSL stood adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs. 3.25 crore. The net cash flow from operating activities stood at Rs.11.45 crore in FY22. On the other hand, the current ratio stood moderate at 1.28 times as on March 31, 2022. The cash accruals during FY23 are expected to sufficient to meet the term loan repayment obligation of Rs. 2.93 crore.

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Shipping](#)

About the Company and Industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Shipping

Sadhav Shipping Limited (SSL) promoted by Captain K K Choudhury was incorporated in the year 1996 to own and operate tanker barges, tugs and vessels and to undertake ship management, repair and maintenance contracts. Since its inception, SSL has been a service provider to ONGC Ltd. The company is engaged in coastal logistics, offshore logistics, port security and ship management. The company operates & manages a fleet of 32 vessels of which 16 are owned by itself, whereas the rest are either chartered from third party owners or owned by clients directly. Company's vessels are deployed with ONGC, Shipping Corporation of India, Paradip Port Trust among others.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	60.57	69.55	55.10
PBILDT	12.50	12.23	11.67
PAT	3.31	3.00	2.57
Overall gearing (times)	0.55	0.59	0.93
Interest coverage (times)	5.81	5.37	3.76

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Lender details: Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	7.73	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Dec 2027	35.69	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	16.58	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-Bank Guarantee	ST	16.58	CARE A3				
2	Fund-based - LT-Term Loan	LT	35.69	CARE BBB-; Stable				
3	Fund-based - LT-Cash Credit	LT	7.73	CARE BBB-; Stable				

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Sudarshan Shreenivas Director CARE Ratings Limited Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in</p> <p>Name: Vikash Agarwal Associate Director CARE Ratings Limited Phone: 022-6837 4408 E-mail: vikash.agarwal@careedge.in</p> <p>Name: Suchita Narkar Analyst CARE Ratings Limited E-mail: Suchita.shirgaonkar@careedge.in</p>
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About us:

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