

## Shahi Shipping Limited

August 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2.90 (Reduced from 3.30)	CARE B; Stable	Reaffirmed
Short Term Bank Facilities	3.00	CARE A4	Reaffirmed
Short Term Bank Facilities	4.10 (Enhanced from 3.70)	CARE A4	Revised from CARE B; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Shahi Shipping Limited (SSL) continue to be tempered by small scale of operations albeit growth in revenues, profits reported by the company however, profitability remained low, leveraged capital structure and weak debt coverage indicators. The ratings are further tempered by higher working capital utilization indicating stretched liquidity position and presence in highly fragmented & competitive nature of shipping industry. The ratings, however, derive strength from long track record of operations with experienced promoters coupled with having well-established relationship with reputed customers.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in the scale of operations with a total operating income exceeding Rs. 22.00 crore on a sustained basis .
- PBILDT margin exceeding 5.00% and PAT margin exceeding 3.00% on a sustained basis .
- Improvement in the capital structure with the overall gearing reaching below 2 times on a sustained basis .
- Improvement in the debt coverage indicators with interest coverage ratio exceeding 2 times with total debt to GCA reaching below 6.00 times on a sustained basis .

#### Negative factors

- Losses at PAT levels resulting into cash losses.
- Increase in debt levels leading to deterioration in gearing levels.
- Significant elongation in operating cycle.

**Analytical approach:** Standalone

**Outlook:** Stable

SSL is expected to benefit over the medium term from the stable shipping industry outlook and gradual improvement in the financial risk profile.

### Detailed description of the key rating drivers

#### Key weaknesses

##### Growth in Total Operating Income albeit scale of operations continues to remain small

With the gradual revival of the market conditions during the year wherein the company executed higher contracts from its customers along with drydocking activity getting completed leading to increased sales, the scale of operations improved by 15.85% with total operating income (TOI) stood at Rs. 10.89 crore in FY23 vis-à-vis Rs. 9.40 crore in FY22. However, despite the improvement, the scale of operations stood small.

##### Low profitability; however operating and net profits achieved

The company reported operating profits which stood at Rs. 0.12 crore in FY23 vis-à-vis operating loss of Rs. 1.16 crore in FY22. The profit margin of SSL primarily depends on the variety of contracts received along with tender driven nature of operations . Further, in FY23, the net losses reported by SSL have turned into profits in FY23 (backed by operating profits achieved along with lower depreciation and interest cost) wherein the PAT stood at Rs. 0.41 crore in FY23 vis-à-vis reporting net loss of Rs. 0.08 crore in FY22. Nevertheless, the profitability remained thin.

##### Leveraged capital structure and weak debt coverage indicators

The capital structure of SSL as reflected by overall gearing ratio improved however stood leveraged at 2.74x as on March 31, 2023 vis-à-vis 3.64 times as on March 31, 2022, wherein the improvement in the same is on account of reduction in debt level given the lower dependence on working capital bank borrowings along with improvement in the tangible net worth base. Further, the debt coverage indicators marked by total debt to GCA and interest coverage ratio remained weak in FY23.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

However, led by the reduction in debt levels and increase in cash profits, the TDGCA improved from 16.85x as on March 31, 2022 to 9.29x as on March 31, 2023. Further, the interest coverage ratio remained at 0.29x in FY23 vis-à-vis negative ICR in FY22.

#### **Working capital intensive nature of operations**

The operations of SSL remained working capital intensive in nature with considerable amount of funds are utilized towards supporting day to day operations. The collection period has remained moderate, however deteriorated from 47 days in FY22 to 59 days in FY23 owing to slightly delayed payments from debtors. Further, creditor's period improved further to 110 days in FY23 from 128 days in FY22; though remained stretched. Owing to above factors operating cycle has turned negative during FY23 and FY22. The average utilization of working capital limits was utilized at ~95% during past twelve months ended June 2023.

#### **Presence in highly fragmented and competitive nature of shipping industry**

SSL operates in the shipping industry which is fragmented with large number of small players resulting into intense competition. Further, the bargaining power of small players is limited with large customers affecting the barges rates. The company's profitability and ability to repay debt is affected by the barges rates at which it can redeploy its vessels. Unlike shipping companies, which derive their freight rates from various Baltic indexes, offshore support vessel companies provide their vessels after the tendering and bidding process. The company's revenues and profitability is exposed to seasonality in the shipping industry, since the offshore personnel transportation is muted during the monsoons.

#### **Key strengths**

##### **Long track record of operations with experienced and qualified directors**

SSL has long track record of about two decades of operations in shipping industry. The overall operations are looked after by director Mr. Sarvesh Kumar Shahi. Mr. Sarvesh Kumar Shahi has vast experience of more than three decades in this industry through his association with company and also worked for other shipping companies. Moreover, other directors of the company are qualified and experienced.

##### **Established relationship with reputed customers**

Over the years of operations, SSL has established long-term relationships with well-established and reputed customers. However, the customer profile remained concentrated with top 5 customers comprising 100% of total sales in FY23 vis-à-vis 80.01% in FY22. However, the customer concentration risk gets mitigated to an extent due to healthy relationship with these clients over the years ensuring repeated orders coupled with strong credit profile and healthy credit worthiness of these customers. Also, all the contracts with the above customers are on-going having validity of one year to three years, as articulated by the management.

##### **Liquidity: Stretched**

The liquidity position remained stretched characterized by lower accruals to repayment obligations and low free cash balance of Rs. 0.37 crore as on March 31, 2023 vis-à-vis Rs. 0.22 crore as on March 31, 2022. The average utilization of its working capital limits during past 12 months ended June 2023 stood at ~95%. Further, the current ratio stood weak at 0.48x as on March 31, 2023 vis-à-vis 0.25x as on March 31, 2022. The cash flow from operating activities was positive at Rs. 0.37 crore as on Mar 31, 2023 vis-à-vis negative CFO of Rs. 1.53 crore as on Mar 31, 2022.

#### **Applicable criteria**

[Policy on default recognition](#)

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

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Financial ratios - Non-Financial Sector](#)

[Short Term Instruments](#)

[Rating Methodology: Shipping Companies](#)

#### **About the company and industry**

##### **Industry Classification**

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

Originally established in the year 1985 as a partnership firm by Mr. Sarvesh Kumar Shahi, the firm got reconstituted as a private-limited company, Shahi Shipping Transport Private Limited, in 1990. Later in the year 2013, it got reconstituted into a public-limited company under the name of Shahi Shipping Limited (SSL). SSL is engaged in the shipping industry and provides Transshipment & lighterage operations, Fresh Water Supply, Bunkers Supply and Container Services. The company owns a fleet of 14 vessels which includes Fleet comprises mini bulk carriers, general cargo carriers, chemical carriers, water supply barges, tugs, and launches deployed in multi-year contracts with the customers. The fleets operate at Jawaharlal Nehru Port Trust

(JNPT) & Bombay Port Trust (BPT) ports and provide inland sea transportation services. The company is operating through its registered office in Masjid, Mumbai.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	9.79	9.40	10.89
PBILD	0.11	-1.16	0.12
PAT	-1.13	-0.08	0.41
Overall gearing (times)	3.25	3.64	2.74
Interest coverage (times)	0.16	-2.48	0.29

A: Audited; 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 the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Not Applicable

**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	-	-	-	-	2.90	CARE B; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	3.00	CARE A4
Non-fund-based - ST-Bank Guarantee	-	-	-	-	4.10	CARE A4

**Annexure-2: Rating history for the 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	Fund-based - LT-Cash Credit	LT	2.90	CARE B; Stable	-	1)CARE B; Stable (27-Jul-22)	1)CARE B; Stable (30-Sep-21)	1)CARE B; Stable (11-Dec-20)
2	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A4	-	1)CARE A4 (27-Jul-22)	1)CARE A4 (30-Sep-21)	1)CARE A4 (11-Dec-20)
3	Non-fund-based - ST-Bank Guarantee	ST	4.10	CARE A4	-	1)CARE B; Stable (27-Jul-22)	1)CARE B; Stable (30-Sep-21)	1)CARE B; Stable (11-Dec-20)

\*Long term/Short term

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

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