

Sadhav Shipping Limited

April 03, 2024

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

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Sadhav Shipping Limited (SSL) factors in healthy profitability margins, strong order book position and having long to medium term contracts signed with some of the key customers for vessel deployment providing revenue visibility, experienced promoters in the offshore shipping industry and established relationship with leading shipping companies and offshore services providers. The rating also favorably factors in fund raising through IPO of Rs.38.17 crore by listing in NSE SME.

However, the rating strengths are partially offset by modest scale of operation; albeit improvement witnessed during FY23, customer concentration risk and moderate credit risk profile. The rating is also constrained by the exposure to seasonality in oil and gas exploration, debt-funded acquisition of vessels, and 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.

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 resulting in significant improvement in cash accruals.

Negative Factors

- Substantial decline in revenue below Rs. 55 crore and operating margins below 15% due to less than expected orders received, cancellation of existing orders/project closures or severe economic slowdown affecting offshore activities
- Deterioration in overall gearing above 1.5x

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook reflects CARE Ratings belief that SSL will sustain steady growth in its scale of operations on the back of its healthy order book position.

Detailed description of the key rating drivers:

Key Strengths

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 over 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.

The low age profile of its fleet leads to higher operating efficiency: The fleet of the company is relatively new with an average residue age of about 10-12 years. Owing to the 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 24 vessels of which 19 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. ~ 281.00 Crores was bagged during the current year. Thus, the total order book position held by the company till March 2024 stood above Rs. ~400.00 crore which is to be executed in the next 5 years. 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, New Mangalore Port Trust, Shipping Corporation of India etc.

Above average yet fluctuating profit margins: PBILDT margin remains fluctuating depending on the execution of the project and continued to remain above average, in the range of 17.58%- 28.63% in the past four years. The PBILDT margin of the company improved from 17.58% in FY22 to 22.33% in FY23 on account of reduction in charter expenses as well as reduction in operational expenses on account of drydocking of vessel last year resulting in improvement efficiency of the vessel.. Further, the company is expected to earn better margins in the projected year owing to the addition of high margin new contract awarded recently.

Key Rating Weakness

Modest scale of operation; albeit improvement witnessed during FY23: The total operating income (TOI) of the company has seen a growth of ~11% in FY23 to Rs.77.88 crore as against Rs.69.55 crore in FY22 majorly due to the higher deployment of its vessels at the back of orders received from its regular clients (Mainly from ONGC.) The revenue of SSL is directly linked to order execution of ONGC contract during the year. The revenue contribution from ONGC has increased from ~53% in FY22 to 58% in FY23. Further, during H1FY24, the company achieved a turnover of Rs.33.86 crore contributing about ~40% of the projected revenue of Rs.84 crore in FY24. Further, healthy orders in hand gives the long-term revenue visibility in projected years.

Client concentration risk: Out of the total revenue generated by SSL, about more than 80% of revenue generated from top 5 customers (ONGC alone contributed about 55% of the revenue). hence the customer concentration risk exists. However, since these customers are 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 has deteriorated and remained moderate with overall gearing stood at 1.35x as on March 31, 2023 (vis-à-vis 0.59x as on March 31,2022). Debt coverage indicators stood moderate with TDGCA at 4.74x in FY23 (vis-à-vis 2.21x in FY22) and PBILDT interest coverage at 4.18x in FY23 (vis-à-vis 5.37x in FY22). The deterioration in the financial risk profile of the company mainly on account of acquisition of vessel by company during FY23 led to additions of term loans, however, continues it to remain moderate. Further, during Feb 2024, the Company raised funds through IPO of Rs. 38.18 crore, 4,018,800 Equity Shares, Rs. 10 per equity, premium of Rs. 85. These has led to increase in tangible net worth by Rs. 38.17 crore and thus, capital structured expects to remain comfortable below unity in projected years despite additional loan planned for acquisition of new vessel.

Foreign exchange fluctuation risk: The company has its contracts with ONGC and other major customers in dollars. Also, its repayment obligation is in dollars. Hence the company has a natural hedge position whereby risk arising out of foreign exchange fluctuation stood at minimal. However, profitability remains susceptible to fluctuation in forex. During FY23 the company has a forex gain of Rs. 0.07 crore in FY23 (PY- Rs. 0.11 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 the 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 nonrenewal 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 profile of SSL is marked by high usage of fund-based limit (maximum utilization for 12 months ending Dec 2023 was 98.51%) and Moderate utilisation of Non fund limit (maximum utilization for 12 months as on Mar 20, 2024, was 78%) and cash and bank balance of Rs. 0.66 cr. As on March 31, 2023. The company is expected to report a GCA of ~Rs.16 crore to ~Rs. 24 crore during FY24 and FY25 are expected to be sufficient to meet the term loan repayment obligation of Rs. 13.25 crore and Rs. 12.21 crore respectively.

Applicable criteria:

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	69.55	77.88	33.86
PBILDT	12.23	17.39	9.77
PAT	2.98	5.91	NA
Overall gearing (times)	0.59	1.35	NA
Interest coverage (times)	5.37	4.18	NA

A: Audited, UA: Unaudited; NA- Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: BWR BB+ Stable ISSUER NOT COOPERATING /BWR A4 + ISSUER NOT COOPERATING as per PR dated Oct 19, 2023

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 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		-	-	-	14.75	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Dec 2027	28.67	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	1)CARE A3 (24-Apr-23)	-	-	-
2	Fund-based - LT-Term Loan	LT	28.67	CARE BBB-; Stable	1)CARE BBB-; Stable (24-Apr-23)	-	-	-
3	Fund-based - LT-Cash Credit	LT	14.75	CARE BBB-; Stable	1)CARE BBB-; Stable (24-Apr-23)	-	-	-

LT: Long term; ST: Short term; LT/ST: 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 Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About us:

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