

## Sadhav Shipping Limited

August 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	85.42 (Enhanced from 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

Reaffirmation in the rating assigned to bank facilities of Sadhav Shipping Limited (SSL) continue to factor in healthy profitability margins, strong order book position backed by renewal of medium-to-long term contracts signed with some key customers with increase in charter rates for vessel deployment providing revenue visibility, improvement in financial risk profile on the back of fund raising undertaken through IPO by listing in NSE SME in FY24. Ratings also factor in experienced promoters in the offshore shipping industry and established relationships with leading port trusts, shipping companies and offshore services providers. However, rating strengths are partially offset by modest-yet-growing scale of operations, customer concentration risk and operations susceptible to risk of non-renewal of contracts and volatility in charter rates or vessels not being deployed for a longer period. Ratings are also constrained by exposure to seasonality in oil and gas exploration activities and presence in competitive, seasonal and cyclical industry.

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

#### Positive Factors

- Successfully renewing key contracts increasing scale of operations above ₹120 crore on a sustained basis.
- Improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 30% on a sustained basis.
- Improving debt coverage indicators with total debt to gross cash accruals (TD/GCA) below 3x on a sustained basis.

#### Negative Factors

- Deteriorating PBILDT margin below 20% on a sustained basis.
- Reducing sales to order book ratio below 2x on a sustained basis.
- Deterioration in overall gearing to above 1.3x
- Cancellation of existing contracts/project closures or severe economic slowdown affecting offshore activities

### 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 strong order book position and sustainable credit profile over near to medium term.

### Detailed description of key rating drivers:

#### Key Strengths

#### Experience of promoters in the offshore shipping industry

SSL's promoter, Captain K.K. Choudhury, has extensive experience in the offshore industry through his association with merchant navy, Shipping Corporation of India Limited and ONGC for more than two decades. Captain K.K. Choudhary started his business in lighterage operations and gradually shifted to more lucrative operations such as oil spillage, and anchor handling among others. He is assisted by S. C. Choudhury, a retired bureaucrat with Customs and Central Excise with over four decades of experience in administrative, customs and excise laws. Sadhana K. Choudhury holds a post-graduation in Arts and has more than a decade of teaching experience. She has been associated with SSL since inception and manages administration and public relation departments.

<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.

### Low age profile of fleet leads to higher operating efficiency

The company's fleet is relatively new with an average residue age of about 10-12 years. Owing to lower vessel age, vessels continue to remain a preferred choice especially with private ports and other offshore services companies. Fleets also garner a premium in chartering rates compared to higher aged vessels. Lower vessel age profile also means limited maintenance and higher re-sale value. The company operates and manages a fleet of 22 vessels, of which, 19 are owned by itself whereas the rest are either chartered from third-party owners or owned by clients directly.

### Healthy order book position

The company bagged two consecutive high-value orders from ONGC. The company has also signed lucrative contracts in the port services sector with existing clients Paradip Port Trust and Mumbai Port Trust. They also received extensions for existing contracts of Oil Spill Response and Speed Boats in Mumbai, Paradip and Vizag. The company has successfully renewed some key contracts with a multifold increase in chartered rates in FY24 and FY25. Total order book position held by the company till July 2024 stood above ~₹400.00 crore (net), which is to be executed in the next 1-5 years, which provides near-to-medium term revenue visibility.

### Established relationship with leading ship liners, ports and exploration companies

With a track record of 20 years of operations, SSL developed established relations with leading shipping companies and offshore services providers such as ONGC Paradeep port Trust, Mumbai Port trust, New Mangalore Port Trust, and Shipping Corporation of India among others.

### Healthy and improved profit margins

PBILDT margin has continuously improved in the past and remained in the range of 17.58%- 25.75% in the last four years ending as on FY24. The company's PBILDT margin improved from 22.33% in FY23 to 25.75% in FY24 considering reduced charter expenses and operational expenses due to drydocking of ships recently leading improved efficiency of the vessel and execution of certain contracts fetches better margins. SSL's PAT margin improved from 7.59% in FY23 to 10.55% in FY24 in line with PBILDT margin. CARE Ratings expects contract renewals at higher charter rates will further aid in improving PBILDT margin in the near term.

### Improvement in financial risk profile in FY24

The company's capital structure significantly improved and remained comfortable with overall gearing stood at 0.76x as on March 31, 2024 (against 1.35x as on March 31, 2023). The company's improving financial risk profile is mainly considering increase in tangible net worth base to ₹88 crore as on March 31, 2024 (PY- ₹40.94 crore) considering equity infusion of ₹38.40 crore through IPO undertaken in the year and accretion of profits. On the other hand, total debt has increased to ₹67.02 crore as on March 31, 2024, as against ₹55.27 crore as on March 31, 2023, due to partial disbursement of term debt for addition of new vessels. Overall gearing is expected to marginally deteriorate in FY25 considering the entire disbursement of new term loan availed for addition in the vessel in Q1FY25. It is expected to remain at a comfortable level in the near-to-medium term. SSL extended corporate guarantee to its group entity (Sadhav Offshore Engineering Private Limited) of ₹22.47 crore in FY23 and ₹24.68 crore in FY24, which resulted in adjusted overall gearing stood moderate at 1.04x as on March 31, 2024 (PY: 1.90x). Debt coverage indicators continue to remain comfortable, marked by interest coverage of 4x in FY24 (PY: 4.18x). TD/GCA stood moderate although slightly improved to 4.30x in FY24 (PY: 4.74x). However, it is expected to remain at a similar level in the near-to-medium term considering an increase in absolute profitability envisaged in projected periods.

### Key Rating Weakness

#### Growing-yet-modest scale of operations

Overall scale of operations stood modest marked by total operating income (TOI) stood in the range of ₹69.55 crore to ₹84.24 crore in FY22 to FY24. TOI has grown by 8.27% in FY24 to ₹84.248 crore as against ₹77.88 crore in FY23 majorly due to higher deployment of its vessels considering orders received from its regular clients (mainly from ONGC.) SSL executed many orders for private companies in FY24, leading to better generation of revenue. Healthy orders in hand gives long-term revenue visibility in projected years. TOI is expected to grow further in FY25 considering deployment of new vessels and charter rates revision undertaken in renewal of contracts.

#### Client concentration risk

Of the total revenue generated by SSL, over 80% of revenue is generated from top five customers (ONGC alone contributed about 43% of the revenue in FY24). Hence, customer concentration risk exists. However, since these customers are government entities such as PSUs, and port authorities among others, counterparty risk is mitigated to a large extent.

### Foreign exchange fluctuation risk

The company has contracts with ONGC and other major customers in dollars. Its repayment obligations are in US dollars. Hence, the company has a partial natural hedge position, where the risk arising from foreign exchange fluctuation stood at minimal. In FY24, the company has a forex gain of ₹0.17 crore in FY24 (PY- ₹0.07 crore).

### Presence in competitive, seasonal and 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 in intense competition. The industry is also seasonal and cyclical with direct linkages to prevailing prospects in the oil & gas industry. Oil price volatility affects charter rates of offshore vessels. The company's profitability and ability to repay debt is affected by charter rates to redeploy its vessels. The company is exposed to seasonality in the shipping industry since the offshore personnel transportation is muted in monsoons. Oil & gas exploration activities are also prone to cyclical, having an adverse bearing on the company's dealings.

### Risk of non-renewal of contract or vessels not being deployed for a longer period

SSL is exposed to risk of nonrenewal of multi-year contracts on the conclusion of their tenure, and risk of non-deployment of owned fleet for a longer period. Tender-based bidding process also invites competition from other small and large players, exposing the company to these risks. However, SSL's long term and cordial relationship with few esteemed clients mitigate risk to an extent. Successful renewal and revision in rates for its key contracts to be expired in the near future remain key monitorable.

### Liquidity: Adequate

SSL's liquidity profile is marked by high usage of fund-based and non fund-based working capital limits with maximum utilisation stood at 98.88% for 12-months ending May 2024 respectively. While free cash and bank balance stood moderate at ₹1.98 crore as on March 31, 2024 (including ₹1.44 crore of un-lien fixed deposits [FDs]). Cash flow from operations turned negative of ₹4.72 crore in FY24 (against positive of ₹20.30 crore in FY23) due to unfavorable working capital changes. Projected cash accruals are expected to be sufficient to meet the term loan repayment obligation of ₹14.65 crore and ₹19.39 crore for FY25 and FY26 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](#)

[Shipping Companies](#)

### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Transport services	Shipping

Incorporated in 1996, SSL is promoted by Captain K K Choudhury and owns and operates 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 Limited. The company is engaged in coastal logistics, offshore logistics, port security and ship management. The company operates and manages a fleet of 22 vessels, of which 19 are owned, whereas the rest are either chartered from third-party owners or owned by clients directly. The company's vessels are deployed with ONGC, Shipping Corporation of India, Paradip Port Trust, Mumbai Port Trust and among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	77.88	84.25
PBILDT	17.39	21.70
PAT	5.91	8.89
Overall gearing (times)	1.35	0.76
Interest coverage (times)	4.18	4.00

A: Audited, Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Brickwork Ratings, vide its press release dated October 19, 2023, has reviewed the credit rating assigned to bank facilities of SSL under non-cooperation category due to non-submission of requisite information.

**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:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** 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		-	-	-	7.28	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Oct-2029	78.14	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 2024-2025	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
1	Non-fund-based - ST-Bank Guarantee	ST	16.58	CARE A3	1)CARE A3 (03-Apr-24)	1)CARE A3 (24-Apr-23)	-	-
2	Fund-based - LT-Term Loan	LT	78.14	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-24)	1)CARE BBB-; Stable (24-Apr-23)	-	-
3	Fund-based - LT-Cash Credit	LT	7.28	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-24)	1)CARE BBB-; Stable (24-Apr-23)	-	-

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instrument / facilities:** Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instrument:** CARE Ratings Ltd. has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

<p><b>Media Contact</b></p> <p>Name: Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Name: Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-67543404 E-mail: <a href="mailto:saiikat.roy@careedge.in">saiikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Akhil Goyal Director <b>CARE Ratings Limited</b> Phone: 022- 6754 3590 E-mail: <a href="mailto:akhil.goyal@careedge.in">akhil.goyal@careedge.in</a></p> <p>Name: Ashish Kambli Associate Director <b>CARE Ratings Limited</b> Phone: 022-6754 3456 E-mail: <a href="mailto:ashish.k@careedge.in">ashish.k@careedge.in</a></p> <p>Name: Suchita Narkar Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Suchita.shirgaonkar@careedge.in">Suchita.shirgaonkar@careedge.in</a></p>
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