

Shahi Shipping Limited

July 27, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	7.00	CARE B; Stable (Single B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	10.00 (₹ Ten Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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, fluctuating profit margins however improvement in operating profits with net losses reducing substantially, 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.

Key Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs. 20.00 crore on a sustained basis
- PBILDT margin exceeding 7.5% and the company reporting net profit 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 10 times on a sustained basis

Negative factors

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

Detailed description of Key rating drivers

Key rating 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, the scale of operations improved by 15.63% with total operating income (TOI) stood at Rs. 11.32 crore in FY22 vis-à-vis Rs. 9.79 crore in FY21. In 2MFY23 (April 2022 to May 2022), the company has achieved sales of Rs. 1.10 crore. Moreover, due to the net losses incurred by the company, tangible net-worth base which deteriorated marginally and stood small at Rs 2.88 crore vis-à-vis Rs. 2.96 crore as on March 31, 2021. Thus, despite the improvement in TOI, the scale of operations continues to remain small.

Improvement in operating profits albeit having net losses on a declining trend

The operating profit of the company increased to Rs. 0.76 crore in FY22 from Rs. 0.11 crore in FY21; however, it stood on the lower side. The company incurred lower amount of operating cost viz. repairs & maintenance, barge operating, port related expenses resulting in improvement in operating profit. The profit margin of SSL primarily depends on the variety of contracts received along with tender driven nature of operations. Further, in FY22, the net losses reported by SSL have significantly reduced by ~93% wherein it reported net loss of Rs. 0.08 crore in FY22 vis-à-vis net loss of Rs. 1.13 crore in FY21. GCA stood positive at Rs. 0.62 crore in FY22 vis-à-vis negative cash profits of Rs. 0.55 crore in FY21. Nevertheless, despite reporting net losses, over the years and in FY22, the losses have been reducing.

Leveraged capital structure and weak debt coverage indicators

Led by the increase in the debt level on the back of higher amount of unsecured loans availed from related parties, the capital structure of SSL as reflected by overall gearing ratio deteriorated marginally and stood leveraged at 3.64 times as on March 31, 2022 (vis-à-vis 3.25 times as on March 31, 2021). The deterioration is also attributable to the funds infused by way of unsecured loans and decline in the tangible net worth base from Rs. 2.96 crore as on March 31, 2021 to Rs. 2.88 crore as on March 31, 2022. Further, the debt coverage indicators marked by total debt to GCA and interest coverage ratio remained weak in FY22. Due to the increase in the debt level and low cash accruals, total debt to GCA stood weak at 16.85x in FY22 vis-à-vis the total debt to GCA stood negative in FY21.

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

However, on the back of profits reported by the company at the operating level and lower interest expense, the interest coverage ratio improved and stood at 1.61x in FY22 vis-à-vis 0.16x in FY21. Nevertheless, despite the improvement, ICR stood below average levels.

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 improved from 57 days in FY21 to 39 days in FY22 owing to faster recovery of payments from debtors. Further, creditor's period improved further to 128 days in FY22 vis-à-vis 141 days in FY21; though remained stretched. Owing to above factors operating cycle has turned negative during FY22 and FY21. The average utilization of working capital limits was utilized at ~95% during past twelve months ended June 2022.

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 Rating 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 FY22 vis-à-vis 80.01% in FY21. 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 accruals being tightly matched to debt servicing obligations and low free cash balance of Rs. 0.27 crore as on March 31, 2022 vis-à-vis Rs. 0.22 crore as on March 31, 2021. The average utilization of its working capital limits during past twelve months ended June 2022 stood at ~95%. Further, the current ratio stood weak at 0.25x as on March 31, 2022 vis-à-vis 0.19x as on March 31, 2021. The cash flow from operating activities was negative at Rs. 0.51 crore in FY22 vis-à-vis positive cash flow of Rs. 0.14 crore in FY21. Also, the company had two terms loans (1 term loan and 1 vehicle loan) and both the loans have been fully repaid and closed in December 2021. Thus, the company has no term loans on its book having fixed repayment schedule.

Analytical approach: Standalone

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Shipping](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Originally established in the year 1985 as a partnership 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*)	Q1FY23 (Prov.)
Total operating income	9.79	11.32	NA
PBILDT	0.11	0.76	NA
PAT	-1.13	-0.08	NA
Overall gearing (times)	3.25	3.64	NA
Interest coverage (times)	0.16	1.61	NA

A: Audited; A* = As per audited abridged results published on BSE; Prov.: Provisional

Status of non-cooperation with previous CRA: CRISIL B+ /Stable (ISSUER NOT COOPERATING*)/ CRISIL A4 (ISSUER NOT COOPERATING*) Issuer not cooperating, based on best-available information vide Press Release dated May 30, 2022.

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: Not Available

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	3.30	CARE B; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	3.00	CARE A4
Fund-based - LT-Proposed fund-based limits	-	-	-	-	3.70	CARE B; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	3.30	CARE B; Stable	-	1)CARE B; Stable (30-Sep-21)	1)CARE B; Stable (11-Dec-20)	1)CARE B; Stable (17-Sep-19)
2	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A4	-	1)CARE A4 (30-Sep-21)	1)CARE A4 (11-Dec-20)	1)CARE A4 (17-Sep-19)
3	Fund-based - LT-Proposed fund based limits	LT	3.70	CARE B; Stable	-	1)CARE B; Stable (30-Sep-21)	1)CARE B; Stable (11-Dec-20)	1)CARE B; Stable (17-Sep-19)

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Penal Interest	The bank will charge penal interest at 2% for the delayed servicing of monthly interest.
B. Non-financial covenants	
1. Stock Audit	Stock audit will be conducted once a year by an outside agency appointed by the bank, the expenses whereof will be borne by the company

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund-based limits	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 CARE Ratings Limited:

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