Shahi Shipping Limited

September 30, 2021

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 Facilities	**10.00 (Rs. 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, net losses incurred during FY21 (refers to the period from April 01 to March 31), leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, presence in highly fragmented & competitive nature of shipping industry and poor liquidity position.

The ratings, however, derive strength from long track record of operations with experienced and qualified directors and established relationship with reputed customers.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs. 15.00 crore on a sustained basis
- Improvement in profit margins with PBILDT margin at 5% and the company reporting net profit on a sustained basis
- Improvement in the capital structure with the overall gearing reaching below 1.5 times on a sustained basis
- Improvement in the collection period below 40 days on a sustained basis
- Improvement in the debt coverage indicators with interest coverage ratio being above unity or exceeding 3 times with total debt to GCA reaching below 5 times on a sustained basis

Negative Factors

- Deterioration in overall operating performance of the company thereby resulting into impacting financial performance of the company
- Deterioration in the utilization of the working capital limits exceeding 95% on a sustained basis.

Detailed description of the key rating drivers

Key rating Weakness

Small scale of operations albeit growth in TOI: The scale of operations of SSL though improved by 17.11% with total operating income (TOI) stood at Rs. 9.79 crore in FY21 vis-à-vis Rs. 8.36 crore in FY20; yet it remained on the lower side. The TOI has increased owing to gradual revival of the market conditions during the year wherein the company has executed higher contracts from its customers.

Further, In Q1FY22, the company has achieved sales of Rs. 1.92 crore. Moreover, the net losses incurred by the company has drained the tangible net-worth base which deteriorated and stood small. Nevertheless, the scale of operations continues to remain small, which limits the financial flexibility of the company to an extent to meet any exigency.

Net losses incurred during FY21: The company reported net losses in FY21 owing to higher interest and depreciation cost. Further, the operating profit also stood low at Rs. 0.11 crore vis-à-vis operating loss of Rs. 1.56 crore in FY20. The company incurred high amount of operating cost viz. repairs & maintenance, barge operating, port related expenses during the year coupled with high amount of provision for bad debt made during the year. Further, it incurred net loss of Rs. 1.13 crore in FY21 vis-à-vis Rs. 3.31 crore in FY20. The profit margin of SSL primarily depends on the variety of contracts received along with tender driven nature of operations. Nevertheless, despite reporting net losses, the losses has reduced in FY21 vis-à-vis FY20.

Further, in Q1FY22, the company has reported operating profit of Rs. 0.16 crore led by lower fixed cost and lower employee cost. Net losses have reduced in Q1FY22 and stood at Rs. 0.18 crore.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Leveraged capital structure and weak debt coverage indicators: Led by the increase in the debt level on the back of higher utilization of working capital bank borrowings and availment of unsecured loans from related parties, the capital structure of SSL as reflected by overall gearing ratio deteriorated and stood leveraged at 3.25 times as on March 31, 2021 (vis-à-vis 2.36 times as on March 31, 2020. The same can be attributed to the company making net losses in FY21 leading to depletion in the tangible net worth base. Further, the debt coverage indicators reached to adverse levels owing to net losses made by the company in FY21 as well as in FY20. As mentioned above, due to the increase in the debt level and negative cash accruals, the total debt to GCA stood negative in FY21 and FY20. 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 0.16x in FY21 vis-à-vis negative interest coverage ratio in FY20. Nevertheless, despite the improvement, ICR stood below unity. However, during Q1FY22, the interest coverage ratio improved and stood above unity at 1.14 times owing to lower interest expense and improved operating profitability.

Working capital intensive nature of operations: The operations of SSL remained working capital intensive in nature with considerable amount of funds are blocked in debtors. The collection period has remained moderate, however improved from 112 days in FY20 to 57 days in FY21 owing to faster recovery of payments from debtors coupled with provision for doubtful debts of Rs. 1.72 crore made during the year. Further, creditor's period also remained stretched and further deteriorated to 141 days in FY21 vis-à-vis 127 days in FY20. Owing to above factors operating cycle has turned negative during FY21 and FY20. Hence, the average utilization of working capital limits was utilized at ~100% during past twelve months ended August 2021.

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 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 also qualified and experienced.

Established relationship with reputed customers: Over the years of operations, SSL has established long-term relationships with reputed customers. However, the customer profile remained concentrated with top five customers comprising 81.52% of the net sales in FY21. 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.

Poor liquidity position: The liquidity position remained poor characterized by lower accruals to repayment obligations and low free cash balance of Rs. 0.22 crore as on March 31, 2021 and Rs. 0.01 crore as on August 31, 2021. The average utilization of its working capital limits during past 12 months ended August 2021 stood at ~100%. Further, the current ratio stood weak at 0.19x as on March 31, 2021 vis-à-vis 0.20x as on March 31, 2020. The cash flow from operating activities was positive at Rs. 0.14 crore vis-à-vis positive cash flow from operating activities of Rs. 1.28 crore as on March 31, 2020. However the management has articulated that in case of any shortfall in cash accruals to service the debt, the company will be arranging funds through unsecured loans from group company.

Analytical approach: Standalone.

Applicable criteria:

CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Shipping Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
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 is registered office in Masjid, Mumbai.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	8.43	9.79
PBILDT	-1.50	0.11
PAT	-3.31	-1.13
Overall gearing (times)	2.36	3.25
Interest coverage (times)	-2.01	0.16

A: Audited;

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 March 31, 2021.

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: 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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.50	CARE B; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4
Fund-based - LT-Proposed fund based limits	-	-	-	2.50	CARE B; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	4.50	CARE B; Stable	-	1)CARE B; Stable (11-Dec-20)	1)CARE B; Stable (17-Sep-19)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4	-	1)CARE A4 (11-Dec-20)	1)CARE A4 (17-Sep-19)	-
3.	Fund-based - LT-Proposed fund based limits	LT	2.50	CARE B; Stable	-	1)CARE B; Stable (11-Dec-20)	1)CARE B; Stable (17-Sep-19)	-

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 the 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 Guarantees	Simple

Annexure 5: Bank Lender Details

To 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@careratings.com for any clarifications.*

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About CARE Ratings:
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