Mercator Limited (Revised)

June 06, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Remarks**
Long term Bank Facilities	959.53	**CARE BBB; Negative (CARE Triple B; Outlook Negative)**	**Rating revised from CARE BBB+; Negative**
Short term Bank Facilities	150.00	**CARE A3 (CARE A Three)**	**Rating revised from CARE A3+;**
Total	**1,109.53 (Rs. One thousand one hundred and nine crore and fifty three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of Mercator Ltd (ML) has been revised on account of decline in scale of operations and incurrence of losses during FY18 and lower than expected cash accruals. This is mainly on account of disruptions in the coal operations for around five months of FY18 as well as weak performance of dredging segment. The debt coverage indicators are also expected to be moderate in the medium term. The coal operations have commenced in February 2018.

The ratings continue to derive strength from long track record of the company along with experienced promoters & management, its diversified revenue profile and moderate capital structure.

The ratings, however, continue to be constrained by the cyclical nature of ML's businesses, the moderation in the performance of tanker and dredging segments as well as market risks related to deployment of vessels.

The ability of the company to deploy its shipping assets gainfully and commence oil exploration as envisaged so that there is an improvement in its scale of operations and profitability are the key rating sensitivities. Sustaining the operations in the coal segment as well as improvement in order book of dredging segment will also be critical to improve the profitability. In addition to these, improvement in the capital structure and the liquidity are the other key rating sensitivities.

Outlook: Negative

The outlook continues to remain 'Negative' as CARE believes that the gross cash accruals may be lower than expected in the medium term as the revenue from the dredging segment is expected to be lower than projected as well as the company is yet to commence operations in the oil segment. On the back of lower than earlier projected cash accruals, debt coverage indicators have weakened with high repayments in the next two years. The temporary disruptions in the coal segment during H2FY18 have also created stress on the liquidity position of the company. The outlook may be revised from 'Negative' to 'Stable' if the oil production commences and adds to the overall profitability as envisaged as well as the liquidity position of the company is improved.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: ML, set up in 1983, is a logistics and services player engaged in shipping, coal trade and E&P based services. ML is promoted by Mr. H K. Mittal (Executive Chairman, B.E.) who is associated with the company since its inception. The group, from initially being solely in chartering of ships, has now expanded to providing end to end logistic solutions. Over the years, with a view to reduce its dependence on shipping segment, the company has diversified into coal trading and mining and O&G exploration.

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

Diversified business profile: The Mercator group has well diversified business operations spanning coal (both mining and trading), shipping (wet bulk) and dredging. The revenue stream is well diversified between coal operations, shipping and expected E&P services. This protects the company from cyclicality of the shipping business. The company has acquired two O&G blocks (in the Cambay Basin) under NELP VII and made investments in development of these oilfields. The business would become more diversified with the commencement of commercial operations of these blocks which is expected by Q2'FY19.

***Moderate capital structure*:** The capital structure is moderate with an overall gearing ratio of 1.76x as on March 31, 2018. The total debt outstanding as on March 31, 2018 amounts to Rs.1,761.00 crore as against Rs. 1,856.14 crore as on March 31, 2017. During the year, the company has raised Rs.145.41 crore through QIP, Rs.100 crore through new NCDs on a private placement basis (out of the sanctioned limits of Rs.190 crore from UTI Structured Debt Opportunities Fund) and sold two vessels (M.T. Sri. Prem Poorva and M.T. Harsha Prem) for a consideration of Rs.47.00 crore. The proceeds were utilized towards repayment of debt and working capital as well as for general corporate purposes.

Key Rating Weakness

***Decline in scale of operations and incurrence of losses during FY18*:** The total operating income (TOI) declined by 52% to Rs.1010.68 crore during FY18 on a consolidated basis as against Rs.2124.04 crore during FY17. The decline was majorly on account of completion and non renewal of Kandla Dredging project and unplanned maintenance off-hire of a large dredger in the dredging segment; loss on sale of assets and decline in charter rates in the shipping segment and temporary disruptions in Indonesia during H2'FY18 in the coal segment.

The company has reported net loss of Rs.277.55 crore during FY18 as against PAT of Rs.28.80 crore during FY17. During the year, the company has incurred net loss on sale of ships amounting to Rs. 64.98 crore, provision towards disruption in the coal business of Rs.34.62 crore and impairment of investments of Rs.3.73 crore. Adjusting the same, the adjusted net loss amounts to Rs. 174.22 crore for the period. The gross cash accruals also declined to Rs.27.57 crore as against 343.50 crore in FY17.

The QIP issue of Rs.145.41 crore, sale proceeds of the vessels of around Rs.47.00 crore and proceeds from NCDs amounting to Rs.100 crore provided liquidity to an extent during the year. However, the debt coverage indicators have weakened in the medium term on account of high debt repayments and decline in expected cash flows.

On a standalone basis, the company has reported TOI of Rs.448.08 crore with net loss of Rs.184.99 crore during FY18 as against TOI of Rs.568.83 crore and net loss of Rs.30.55 crore during FY17.

Substantial support by ML to its subsidiaries in the form of financial guarantees/letters of comfort extended to their borrowings: ML has substantial support extended to its subsidiaries/step down subsidiaries in the form of guarantees and letter of comfort to their borrowings. The guarantees and letter of comfort extended by ML (standalone) to its subsidiaries stood at Rs.534.23 crore which is 65% of ML's standalone net worth as on March 31, 2017.

Cyclical nature of the shipping industry and continued industry slowdown: The performance of the shipping industry is linked with the global trade flows and the industry is therefore highly cyclical in nature. The industry is going through a rough phase since the global economic slowdown. Limited cargo movement and oversupply of vessels, almost across all segments has led to a considerable decline in the freight rates and decline in the operational cash flows of the companies operating in the industry.

Outlook on Coal business of ML: The company's coal reserves in Indonesia mainly comprises of low-grade thermal coal with a calorific value of 3,700-4,200 Kcal. The company had two operational mines in Indonesia of which Petangis mine (2 licenses) has been depleted of reserves during June 2015. The company is expected to mine around 2.0-2.4 mn tonnes (estimated reserves 26.3 mn tonnes) of coal during FY19-20. The Company also owns coal logistics and infrastructure facilities viz. crusher, jetty with conveyor loading, stockpile with stacker facility and all weather haul road for end-to-end evacuation of coal. The surplus capacity of this infrastructure is utilized by the nearby miners under leasing arrangements thereby providing incremental Income to the Company.

Outlook on Oil business of ML: The Directorate General of Hydrocarbons (DGH) have approved the Field Development Plan (FDP) for over 23.8 million barrels of oil for its Jyoti-1 & Jyoti-2 oil discoveries on February 27, 2018 and trial production has been achieved during March-April 2018.The company has a Memorandum of Understanding (MOU) with Indian Oil Corporation (IOC) for Crude Oil Sales Agreement in place as well as evacuation infrastructure in place. The company expects to get the mining lease approval in June 2018 and commence production from Q2'FY19 with an initial production of 700 barrels/day which is expected to reach around 5500 barrels/day by the end of FY19. The company expects to produce around 500,000 barrels of oil in FY19 and around 2 million barrels in FY20

Analytical approach: Consolidated

CARE has analysed ML's credit profile taking into account the consolidated business profile and financial statements of the company owing to the strong operating and financial linkages between the parent (India operations) and subsidiaries (global operations).

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Rating Methodology - Shipping Companies]

About the Company
ML along with its subsidiaries is a diversified group engaged in shipping (dry bulk, wet bulk and dredging), gas, coal mining and E&P activities. ML commenced business as a shipping company in 1984 (taken over by present promoters in FY89) and has over the years, through its subsidiaries, diversified into various other sectors like coal mining, trading and logistics, E&P and dredging.
During February 2018, the company has announced de-merger of the dredging segment of the company into another listed entity. The merger is subject to shareholders' and various other regulatory approvals and is expected to be completed in FY19.

Brief Financials (Rs. crore) Consolidated	FY17 (A)	FY18 (A)*
Total operating income	2124.04	1010.68
PBILDT	595.84	245.22
PAT	28.38	(174.22)
Overall gearing (times)	1.77	1.76
Interest coverage (times)	2.56	1.42

**Based on limited review*

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 6754 3638
Email: sharmila.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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
Non-fund-based - ST-BG/LC	-	-	-	150.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB; Negative
Fund-based - LT-Term Loan	-	-	FY25	653.97	CARE BBB; Negative
Non-fund-based - LT-Letter of credit	-	-	-	255.56	CARE BBB; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	150.00	CARE A3	-	1)CARE A3+ (26-Feb-18) 2)CARE A3+ (22-Sep-17)	1)CARE A3+ (Under Credit watch with Developing Implications) (05-Jan-17) 2)CARE A3+ (14-Oct-16)	1)CARE A2+ (30-Oct-15)	1)CARE A1 (28-Aug-14)
2.	Debentures-Non Convertible Debentures	LT	--	-	Withdrawn (09-May-18)	1) CARE BBB+; Negative (26-Feb-18) 2)CARE BBB+; Stable (22-Sep-17)	1)CARE BBB (Under Credit watch with Developing Implications) (05-Jan-17) 2)CARE BBB (14-Oct-16)	1)CARE A- (30-Oct-15)	1)CARE A (28-Aug-14)
3.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB Negative	-	1) CARE BBB+;	1)CARE BBB (Under Credit	1)CARE A- (30-Oct-	1)CARE A (28-Aug-

						Negative (26-Feb-18) 2)CARE BBB+; Stable (22-Sep-17)	watch with Developing Implications) (05-Jan-17) 2)CARE BBB (14-Oct-16)	15)	14)
4.	Fund-based - LT-Term Loan	LT	653.97	CARE BBB; Negative	-	1) CARE BBB+; Negative (26-Feb-18) 2)CARE BBB+; Stable (22-Sep-17)	1)CARE BBB (Under Credit watch with Developing Implications) (05-Jan-17) 2)CARE BBB (14-Oct-16)	1)CARE A- (30-Oct-15)	1)CARE A (28-Aug-14)
5.	Non-fund-based - LT-Letter of credit	LT	255.56	CARE BBB; Negative	-	1) CARE BBB+; Negative (26-Feb-18) 2)CARE BBB+; Stable (22-Sep-17)	1)CARE BBB (Under Credit watch with Developing Implications) (05-Jan-17) 2)CARE BBB (14-Oct-16)	1)CARE A- (30-Oct-15)	1)CARE A (28-Aug-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691