

## Seamec Limited

April 05, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	-	-	Withdrawn
Long term/Short term Bank Facilities	25.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed, removed from credit watch
Short-term Bank Facilities	5.00	CARE A2 (A Two)	Reaffirmed, removed from credit watch
<b>Total</b>	<b>30.00</b> <b>(Rs. Thirty Crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of Seamec Ltd (Seamec) continues to derive strength from established position of Seamec in offshore servicing industry, long-standing business relationship with clients, comfortable capital structure and debt service coverage indicators. These rating strengths are partially tempered by concentration of revenues from offshore services, volatility in revenue streams and profitability, high average age of fleet and redeployment risk at competitive rates.

Any large sized debt funded vessel acquisition having significant implications on the capital structure and any further repatriation of cash by the holding company affecting its liquidity profile would remain the rating monitorable.

The ratings have been removed from 'credit watch' with developing implications following withdrawal of the proposed business restructuring exercise with its parent HAL Offshore Ltd (HOL). Earlier HOL had decided to go for the reverse merger of the EPC and Vessel Division of HOL with Seamec. HOL is also into the business of executing EPC contracts for oil & gas industry in addition to the business of chartering of offshore vessels as Seamec. However the plan is now scrapped and the demerger application filed before NCLT stands dismissed and withdrawn.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Experienced Promoters*

The company is backed by HOL which has two decades of operational expertise in the Oil & gas industry. Majority of the senior management has prior experience in the same industry and is supported by an eight member Board consisting of four independent directors.

##### *Established relationship with clients and strong market position*

Seamec has been providing specialized services to the offshore oil & gas industry in India and abroad. Over the years, the company has built upon a strong market position through its deliverables and superior service record of accomplishment. The company mostly offers its services to reputed clients in the oil & gas industry and has been serving most of these clients over a long-term period. The company's past track record provides visibility on its quality of service, which has helped the company in garnering repeat orders from them over the years.

##### *Comfortable capital structure and liquidity position*

On account of provisions made for bad/doubtful debts primarily from Swiber group, the networth of the company has eroded over the past 3 years. However, the capital structure of the company is comfortable with negligible debt. The company has Rs 42.01 crore in mutual funds, cash and bank balance of Rs 1.20 crore and additional Rs. 40.90 crore in fixed deposits as on March 31, 2018. The subsidiary, 'Seamec International', has purchased a new bulk carrier in July 2018 funded by loan of USD 7.2 million, for which parent Seamec Limited has furnished corporate guarantee.

### Key Rating Weaknesses

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Declining trend in operational performance over past 3 years, however improved in 9MFY19**

Total revenue of Seamec declined by 4.2% from Rs.221 crore in FY17 to Rs.212 crore in FY18 mainly led by decline in charter rates and deployment days coupled with muted opportunities in Middle East and South East Asia. During FY18, three out of 6 operating vessels of the company were underemployed. Additionally, competition in offshore services providers in the industry resulted in reduction in contract value of projects thus impacting the charter rates. The company generates 75-90% of operating revenue from domestic markets with balance generated from overseas markets.

**Industry highly sensitive to economic and commodity price cycle**

The prospect for the offshore services industry hinges upon the growth of Oil & Gas Exploration and Production (E&P) activities. Since field and new exploration, activity is supported by the MSV and utility vessels of Seamec, its revenues will be directly affected by the level of E&P activities of major oil & gas companies. Any decline in E&P spending by these major oil & gas companies can have a negative impact on the demand for offshore service vessels, which would also impact the vessels day rates.

**Higher average age of the fleet and redeployment risk**

The average age of Seamec's fleet is around 32-33 years, which continues to remain a major concern. With periodic changes on the regulatory front pertaining to the age of the servicing vessels, the redeployment risk of putting up the old vessels on a long-term charter significantly increases.

**Revenue concentration from offshore support vessels**

Seamec's revenues are dependent upon the E&P activity of some of its major customers in the Oil & Gas industry which has recently taken a hit due to decline in upstream investment. Within the Oil & Gas industry as well, Seamec offers its services only to particular sub-segment which further exposes the company to revenue concentration risk.

**Analytical approach:** Standalone. However, potential liabilities arising out of the corporate guarantee issued in favour of the lenders of its subsidiary company "Seamec International" has been factored in the analysis.

**Applicable Criteria**

[Criteria for Short Term Instruments](#)

[Financials Ratio-Non Financial Sector](#)

[Criteria on Assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

**About the company**

Incorporated in December 1986, Seamec Limited (erstwhile South East Asia Marine Engineering & Construction Limited) owns and manages offshore support vessels. The services provided by Seamec includes, marine & vessel management, diving support, fire fighting, sub-sea construction pipe-laying, rescue operations, logistics, mooring and de-mooring, carnage etc. HAL Offshore Limited (part of the Delhi-based MM Agarwal group) acquired a 51% stake in the company in April 2014 and increased its shareholding to 75% in September 2014, further reduced to 69.57% as on March 31, 2018. HOL is into similar line of business and also provides integrated offshore services to the oil and gas industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	221.85	212.37
PBILDT	-97.66	51.82
PAT	-149.58	0.30
Overall gearing (times)	0.07	0.03
Interest coverage (times)	-31.15	80.97

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Arunava Paul

Tel: +91 022 6754 3665

Email: [Arunava.Paul@careratings.com](mailto:Arunava.Paul@careratings.com)

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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/ ST-Working Capital Limits	-	-	-	-	-
Fund-based/Non-fund-based-LT/ST	-	-	-	25.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	5.00	CARE A2

#### 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
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (23-Nov-17)	1)CARE A-; Negative / CARE A2+ (07-Feb-17)	1)CARE A / CARE A1 (03-Dec-15) 2)CARE A (27-Oct-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE BBB+; Stable / CARE A2	1)CARE A2 (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE A2+ (Under Credit watch with Developing Implications) (23-Nov-17)	1)CARE A2+ (07-Feb-17)	1)CARE A1 (03-Dec-15) 2)CARE A1 (27-Oct-15)
3.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2	1)CARE A2 (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE A2+ (Under Credit watch with Developing Implications) (23-Nov-17)	1)CARE A2+ (07-Feb-17)	1)CARE A1 (03-Dec-15)

## CONTACT

### Head Office Mumbai

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691