

Seamec Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities- Fund based-CC	5.00 (5.00)	CARE A2 (A Two) Credit watch with developing implications	Revised from CARE A2+ (A Two Plus) Credit watch with developing implications
Short Term Bank Facilities- Non-fund- based- (BG&LER)	25.00 (21.00)	CARE A2 (A Two) Credit watch with developing implications	Revised from CARE A2+ (A Two Plus) Credit watch with developing implications
Bank Facilities-Fund- based – Long Term	13.41 (25.00)	CARE BBB+ / CARE A2 (Triple B Plus / A Two) Credit watch with developing implications	Revised from CARE A- /CARE A2+ (Single A Minus /CARE A Two Plus) Credit watch with developing implications
Total	43.41 (Rs. Forty Three crore and Forty One Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Seamec Ltd (Seamec) considers the decline in sales and profitability during FY17 and 9MFY18 in the backdrop of declining charter rates and low deployment. There was also moderation in liquidity and erosion of net worth on account of provisions for bad debts.

The rating 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, 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.

CARE had placed the ratings assigned to the bank facilities of Seamec Ltd (Seamec) under 'credit watch' with developing implications on the backdrop of business restructuring exercise with its parent HAL Offshore Ltd (HOL) whereby the companies 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.

Detailed description of the key rating drivers

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.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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.

Key Rating Weaknesses***Moderation in operational performance***

Owing to continuing lower crude oil, the global vessel charter rates for the offshore services industry declined significantly. The charter rates have declined and vessel utilizations have been affected, thus impacting the revenue and cash accruals of the company. Except three vessels other vessels of Seamec are deployed on spot and further the charter rates (for vessels deployed on long term charter) have come down on contract renewal. Owing to lower charter hires, low rates and maintenance, the company reported loss in 9M FY18. Further the company has posted loss in FY17 due to provision of Rs. 138.50 crore made for the doubtful receivable of Swiber group which is under liquidation.

Industry highly sensitive to economic and commodity price cycle

The prospect for the offshore services industry hinges upon the growth of Exploration and Production (E&P) activities. Since field and new exploration, activity is supported by vessels of Seamec; its revenues will be directly affected by the level of E&P activities of major oil & gas companies. The upstream investment in oil exploration and production declined drastically in years 2015 and 2016 and the recovery in 2017 has been modest. This has resulted in continuation of lower charter 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

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](#)

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. HOL is into similar line of business and also provides integrated offshore services to the oil and gas industry.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	348.59	221.85
PBILD	56.77	-97.66
PAT	3.86	-149.58
Overall gearing (times)	0.07	0.07
Interest coverage (times)	76.92	-31.15

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.

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****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.

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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
Non-fund-based - ST-Forward Contract	-	-	-	5.00	CARE A2 (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-Short Term	-	-	-	25.00	CARE A2 (Under Credit watch with Developing Implications)
Fund-based - LT/ ST-Working Capital Limits	-	-	-	13.41	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)

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	13.41	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	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-Short Term	ST	25.00	CARE A2 (Under Credit watch with Developing Implications)	-	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 (Under Credit watch with Developing Implications)	-	1)CARE A2+ (Under Credit watch with Developing Implications) (23-Nov-17)	1)CARE A2+ (07-Feb-17)	1)CARE A1 (03-Dec-15)

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