

Shahi Shipping Limited

December 11, 2020

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 ratings assigned to the bank facilities of Shahi Shipping Limited (SSL) continue to be constrained by small and fluctuating scale of operations, weak profit margins with operating and net losses incurred during FY20, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations and presence in highly fragmented & competitive nature of shipping industry.

The ratings, however, derive strength from long track record of operations with experienced and qualified directors and 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 with tangible network base exceeding Rs. 10.00 crore on a sustained basis
- Improvement in profit margins with company reporting operating and net profits 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 debt coverage indicators with interest coverage ratio exceeding 2 times with total debt to GCA reaching below 10 times on a sustained basis.
- Improvement in the collection period below 90 days on a sustained basis.

Negative Factors

- Deterioration in the utilization of the working capital limits exceeding 90% on a sustained basis.

Detailed description of Key rating drivers

Key rating Weakness

Small and fluctuating scale of operations: The total operating income (TOI) of the company has decreased by 24.46% and stood at Rs. 8.43 crore in FY20 vis-à-vis Rs. 11.16 crore in FY19 owing to muted market conditions during the year wherein the company has executed lower contracts from its customers. Moreover, due to the net losses incurred by the company has drained the tangible net-worth base which deteriorated and stood small at Rs.3.87 crore as on March 31, 2020 (vis-à-vis Rs.7.18 crore as on March 31, 2019). Nevertheless, the scale of operations continues to remain small, which limits the financial flexibility of the company to an extent to meet any exigency.

Weak profit margins with operating and net losses incurred during FY20: The company reported operating and net losses in FY20 primarily due to high amount of operating cost viz. repairs & maintenance, barge operating, port related expenses incurred during the year coupled with high amount of provision for bad debt made during the year along with bad debts written off during FY20. As a result of the same, company reported operating loss of Rs.1.50 crore in FY20 vis-à-vis operating loss of Rs. 12.13 crore in FY19. Further, it incurred net loss of Rs. 3.31 crore in FY20 as against net loss of Rs. 14.65 crore in FY19. The profit margin of SSL primarily depends on the variety of contracts received along with tender driven nature of operations.

Leveraged capital structure and weak debt coverage indicators: Despite the decrease in the debt level on the back of lower utilization of working capital bank borrowings and repayment of term loan and vehicle loan, the capital structure of SSL as reflected by overall gearing ratio deteriorated and stood leveraged at 2.36 times as on March 31, 2020 (vis-à-vis 1.38 times as on March 31, 2019). The same can be attributed to the company making operating as well as net losses in FY20 leading to

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

depletion in the tangible net worth base in FY20. Further, the debt coverage indicators reached to adverse levels owing to operating and net losses made by the company in FY20 as well as in FY19. The total debt to GCA stood negative in FY20 owing to negative cash accruals of Rs. 2.24 crore in FY20 led by net loss of Rs. 3.31 crore incurred in FY20 (vis-à-vis net loss of Rs. 14.65 crore in FY19).

Working capital intensive nature of operations: The operations of the company remained working capital intensive on account of high level of funds blocked in debtors. The collection period, although improved, remained stretched at 112 days in FY20 (vis-à-vis 303 days in FY19). Further, the majority of its working capital requirements primarily met through working capital borrowings and hence, utilization of working capital limits stood at 85% for the past twelve months ending November 30, 2020.

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.

Stretched liquidity position: The liquidity position remained stretched characterized by tightly matched accruals to repayment obligations and low free cash balance of Rs. 0.25 crore as on September 30, 2020. The average utilization of its working capital limits during past 12 months ended November 2020 stood at ~85%. Further, the current ratio stood weak at 0.20x as on March 31, 2020 (vis-à-vis 0.37 times as on March 31, 2019). The cash flow from operating activities was positive of Rs. 1.35 crore as on March 31, 2020 (vis-à-vis negative cash flow of Rs. 0.80 crore as on March 31, 2019).

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 34 years 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 5 customers comprising 81.52% of the net sales in FY20. 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.

Analytical Approach: Standalone

Applicable Criteria

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Shipping Companies](#)

[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 & lighthouse operations, Fresh Water Supply, Bunkers Supply and Container Services. As on December 08, 2020, the company owns a fleet of 12 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 (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income | 11.16 | 8.43 |
| PBILDT | -12.13 | -1.50 |
| PAT | -14.65 | -3.31 |
| Overall gearing (times) | 1.38 | 2.36 |
| Interest coverage (times) | NEG | NEG |

A: Audited; NEG: Negative

Status of non-cooperation with previous CRA: Nil.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 4.50 | CARE B; Stable | - | 1)CARE B; Stable (17-Sep-19) | - | - |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 3.00 | CARE A4 | - | 1)CARE A4 (17-Sep-19) | - | - |
| 3. | Fund-based - LT-Proposed fund based limits | LT | 2.50 | CARE B; Stable | - | 1)CARE B; Stable (17-Sep-19) | - | - |

Annexure 3: 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 |

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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