

Press Release

Arcadia Shipping Limited

June 05, 2020

Rating Assigned



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.154.91 Cr. |
| Long Term Rating | ACUITE BB / Outlook: Stable |
| Short Term Rating | ACUITE A4+ |

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.154.91 crore bank facilities of Arcadia Shipping Limited (ASL). The outlook is '**Stable**'.

Mumbai based Arcadia Shipping Limited (ASL) was incorporated in 1981. The company promoted by Mr. Mukesh Navinchandra Shah, Mr. Anjan Navinchandra Shah, Mr. Vinit Navinchandra Shah is engaged in ship owning & management, shipping agent's/liner operations, ship broking/chartering, lighterage contractors, coastal cargo movements and support for offshore activities in the oil and gas sector.

ASL owns and operates two dry bulk vessels viz. Navdhenu Sun and Navdhenu Purna with an aggregate capacity of 102,400 DWT. Navdhenu Sun was built in the year 2001 and has a capacity of 48,910 DWT while Navdhenu Purna was built in the year 2005 and has a capacity of 53490 DWT. Both these dry bulk vessels are mainly deployed with Department of Fertilizers, Government of India (GoI).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the ASL to arrive at this rating.

Key Rating Drivers

Strengths

• Established presence in the shipping industry

Arcadia Shipping Limited (ASL) was incorporated in 1981 by Mr. Mukesh N Shah, (Chairman and Managing Director) who has an experience of over three decades in Shipping Industry and real estate. The board comprises of well qualified directors who are having experience of over three to four decades in the said industry. The company is currently managed by Mr. Vinit N Shah, (Director), Mr. Anjan N Shah, (Director), Mr. Lavanya N Shah (Head – Finance & Administration). The management is ably supported by second line of management comprising of Mr. D. J. Malvankar (General Manager), Mr. Ramesh Kuchroo (Manager, Port Operation) Mr. Danny Britto (Technical Manager) among others having experience of over two to three decades in Shipping allied industry.

ASL through its promoters' experience has been able to generate longstanding relation with Government entities such as Department of Fertilizers; GoI, KIOCL Limited to name a few along with some private players such as JSW, Essar among others.

Acuité believes that ASL will continue to benefit from the promoter's established presence in the shipping industry and its improving business risk profile over the medium term.

• Established relationship with reputed customers

ASL predominantly gets Contract of Affreightment (CoA) for import of Urea from Sur port, in Oman to be delivered to the various ports of east and west coast of India from Department of Fertilizers, Government of India. A CoA is a long-term contract under which a ship owner agrees to transport a specified quantity of cargo at a specified rate per tonne between the designated loading and discharge ports during a specified period. Presently, the company is doing spot contracts for the shipment of Urea to mitigate the volatility in the charter rates. ASL over the past has also successfully executed various contracts with other entities such as KIOCL Limited, JSW, Essar, Tata Motors, Ashok Leyland among others.

Acuité believes that the established position in the industry and healthy relations with customers will help

the company to maintain stable credit profile in the medium term.

Weaknesses

• Average financial risk profile

ASL has average financial risk profile marked by moderate net worth, high gearing and moderate debt protection matrices.

ASL's net worth is estimated at around Rs.39.70 crores as on 31 March 2019 as against Rs.35.96 crore as on 31 March 2018. The company has followed an aggressive financial policy, which is reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 4.06 times and 4.27 times respectively as on 31 March 2019. Acuite believes that the gearing and TOL/TNW to remain above 3 times over medium term.

The revenues of the company were in the range of Rs.118-119 crore for last two years ended FY2019, while its operating margins were in the range of 28-31 per cent. The healthy profitability levels coupled with reduction in the interest expenses has led to moderate debt protection measures. The Interest Coverage Ratio (ICR) stood moderate at 2.53 times for FY2019.

Acuite believes the financial risk profile to improve marginally over the medium term in absence of any major debt funded capex plan.

• Susceptibility of the cash flows to cyclical in the shipping industry

Shipping is a global industry and its prospects are intricately linked to the level of economic activity in the world. A higher or lower level of industrial activity generally leads to higher or lower demand for industrial raw materials. This in turn boosts/adversely impacts imports and exports.

Freight rates and earnings of the shipping companies are primarily a function of demand and supply in the markets. Demand drivers are a function of trade growth and geographical balance of trade (which determines the length of haul required). On the other hand, the supply drivers are a function of new ship building orders as well as scrapping of existing tonnage. ASL is involved in movement of dry bulk cargos and the freight rates for the same are linked to movements in the Baltic Dry Index (BDI). Any sudden and sharp decline of the BDI is likely to foretell a recession since producers have substantially curtailed their demand leaving shippers to substantially reduce their rates in an attempt to attract cargo.

Acuite believes that any sharp decline BDI resulting in adverse movement in the Freight rates can have impact on the operations of players like ASL.

Liquidity position: Stretched

ASL has stretched liquidity position marked by limited cushion between its net cash accruals and debt obligations. The cash accruals are expected to be in the range of Rs.17-22 crore against the debt obligation of around Rs.16-17 crore for the period of FY2020-22. The current ratio stood low below one as on 31 March 2019. Going forward, Acuite believes that the ability of the company to improve its cash accruals by improving its scale of operations will be a key rating sensitivity.

Rating Sensitivities

- Improvement in the scale of operations while maintaining profitability levels
- Deterioration in the financial risk profile or liquidity position

Material Covenants

None

Outlook: Stable

Acuite believes that ASL will maintain a 'Stable' outlook owing to its promoters' extensive experience in the shipping industry and established relations with clientele. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and if liquidity or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 119.82 | 118.30 |
| PAT | Rs. Cr. | 3.75 | (1.93) |
| PAT Margin | (%) | 3.13 | (1.63) |
| Total Debt/Tangible Net Worth | Times | 4.06 | 4.71 |
| PBDIT/Interest | Times | 2.53 | 1.86 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------|
| FCTL- 1* | Apr-18 | Not Applicable | Mar-28 | 22.68 | ACUITE BB/Stable |
| FCTL- 2* | Apr-18 | Not Applicable | Mar-28 | 38.62 | ACUITE BB/Stable |
| FCTL- 3* | Apr-18 | Not Applicable | Mar-28 | 32.64 | ACUITE BB/Stable |
| Term Loan | Apr-18 | Not Applicable | Mar-28 | 19.40 | ACUITE BB/Stable |
| FITL | Apr-18 | Not Applicable | Mar-23 | 6.99 | ACUITE BB/Stable |
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BB/Stable |
| CMTCC | Not Applicable | Not Applicable | Not Applicable | 13.58 | ACUITE BB/Stable |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A4+ |

*at Notional Rate of 1 USD= Rs.71 INR

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About Acuité Ratings & Research:

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