

Press Release

Sadhav Offshore Engineering Private Limited

April 28, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.10	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	8.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	22.10	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on Rs. 22.10 Cr. bank facilities of Sadhav Offshore Engineering Private Limited (SOEPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into consideration the established track record of operations of the company and extensive experience of the promoters in the Maritime industry. The rating also draws comfort from the augmentation of business risk profile of the company reflected by the improvement in operating income and increase in share of the shipbuilding segment. SOEPL has recorded a strong growth in its operating income with a CAGR of 15.34 percent over the last three years. The operating income stood at Rs.55.66 crore in FY23 (Prov.) as against Rs.38.78 crore in FY22 and Rs.31.90 crore in FY21. The rating also factors in the moderate financial risk profile of the company marked by low gearing levels of 0.98 times as on March 31, 2022 and adequate liquidity position. These strengths are partially offset by the company's intensive nature of working capital operations and exposure to risks related to cyclicity of the industry and customer concentration risk.

About the Company

Incorporated in 1992, Sadhav Offshore Engineering Private Ltd (SOEPL) is a Maharashtra based company engaged in ship building and ship repair services. The company carries out its operations of ship building and ship repairs at Paradip Port and Visakhapatnam Port. SOEPL was incorporated as a partnership firm and initially started its operations with offshore oil rig repairs and later also started with ship repairs and ship building activities. SOEPL was incorporated as a private limited company from a partnership firm in March 2022. The company is promoted by Mr. Kamalkant Coudhury, Mr. Sadhna Choudhury and Ms. Devahuti Choudhury who have over 3 decades of experience in the industry.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Sadhav Offshore Engineering Private Limited (SOEPL)

Key Rating Drivers

Strengths

Extensive experience of management and established track record of operations

SOEPL is based out of Maharashtra and was incorporated in 1992 reflecting its long track record of operations in the Maritime sector. The promoters of the company, Mr. Kamalkant Coudhury, Mr. Sadhna Choudhury and Ms. Devahuti Choudhury have been working in the aforementioned industry for over three decades. The operations of the company are managed by its promoters who are ably supported by a qualified and well experienced senior management team. The experience of the promoters and long track record of operations in the Maritime sector has helped the company to improve the company's business risk profile over the years and maintain healthy and long-term relationships with both its customers and suppliers. Key customers of the company include names such as Indian Coast Guard, Goa Shipyard, Mazgaon Dock Shipbuilders Ltd among others.

Acuité believes SOEPL will continue to benefit over the medium term from its longstanding association with its key customers as well as suppliers.

Augmentation in business risk profile

SOEPL has recorded a strong growth in its operating income with a CAGR of 15.34 percent over the last three years. The operating income stood at Rs.55.66 crore in FY23 (Prov.) as against Rs.38.78 crore in FY22 and Rs.31.90 crore in FY21. Such improvement in operating income comes at the back of increased orders received by the company for ship repairs. The company generates 70-80 percent of its revenue from the ship repair segment. In addition to the ship repair segment, SOEPL's shipbuilding segment has also improved gradually over the last three years. Revenue from ship building segment stood at Rs.12.63 crore for 11MFY23 as against Rs.7.48 crore in FY22 and Rs. 4.98 crore in FY21. Operating margins of the company have remained range bound between 7 to 7.50 percent. The operating margin of the company stood at 7.34 percent in FY22 as against 7.44 percent in FY21 and 11.05 percent in FY20. PAT margins have also remained in the range of 5 to 5.50 percent over the last three years. The operating margins are expected to improve in the near to medium term on account of likely increase in share of the ship building segment.

Acuite believes that the company's ability to improve its scale of operations while maintaining profitability will remain a key rating sensitivity.

Moderate financial risk profile

The financial risk profile of the company is moderate marked by moderate network, low gearing and healthy debt protection metrics. The tangible network of the company is moderate marked by network of Rs. 5.58 crore as on March 31, 2022 as against Rs. 5.51 crore as on March 31, 2021 and Rs. 5.05 crore as on March 31, 2020. The total debt of the company stood at Rs. 5.48 crore as on March 31, 2022 as against Rs. 5.21 crore as on March 31, 2021 and Rs. 6.36 crore as on March 31, 2020. The gearing of the company marginally increased as on March 31, 2022 on account of GECL loans availed by the company. The gearing stood at 0.98 times as on March 31, 2022 as against 0.95 times as on March 31, 2021 and 1.26 times as on March 31, 2020. The company in FY23 has availed working capital term loan of Rs. 5 crore to meet the requirements of additional orders received by the company. Further, the incremental working capital requirements are likely to increase in the near to medium term on account of the growing shipbuilding segment which will be met through working capital limits. TOL/TNW (Total outside liabilities to Tangible network) of the company stood at 2.31 times as on March 31, 2022 as against 1.75 times as on March 31, 2021 and 2.31 times as on March 31, 2020. The Debt Service Coverage Ratio (DSCR) stood stable at 2.26 times in FY22 as against 2.08 times in FY21 and 3.35 times as on FY20. Interest coverage ratio (ICR) of the company stood at 3.60 times in FY22 as against 3.54 times in FY21 and 3.35 times in FY20.

Acuite believes that the financial risk profile of the company is likely to remain moderate in the near to medium term despite the incremental working capital requirements on account of likely increase in scale of operations.

Weaknesses

Intensive working capital operations

SOEPL's working capital operations are intensive evident from GCA days of 110 days in FY22 as against 126 days in FY21 and 154 days in FY20. The GCA days are majorly driven by the elongated debtor collection period. Majority of the customers of SOEPL are government shipbuilding companies like Goa Shipyard, Mazgaon Dock shipbuilders Ltd and the average credit period extended by the company is 30-60 days. In some cases the recovery from the government clients are delayed. The debtor collection period of the company improved at 58 days in FY22 as against 91 days in FY21 and 124 days in FY20. Inventory of the company includes spares, paint and steel as per orders with the company. Inventory holding period of the company stood at 30 days in FY22 as against 3 days in FY21 and 1 day in FY20. Higher inventory holding in FY22 is on account of higher orders for shipbuilding at the end of financial year. The creditor days of the company stood at 94 days in FY22 as against 69 days in FY21 and 96 days in FY20.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Exposure to risks related to cyclicity of the industry and customer concentration

The ship repairs and ship building orders depend on the demand sentiments in the economy. Further, the operations of the company are tender based in nature and highly dependent on the tenders floated by the government shipping companies. Hence, the operating performance of the company is susceptible to successful award of tenders and the cyclicity in industry due to weak economic sentiments. Additionally, SOEPL also faces a customer concentration risk as ~50 percent of the revenue of the company is contributed by top three customers over the last three years.

Rating Sensitivities

- Significant improvement in operating income while maintaining profitability
- Further elongation in working capital cycle leading to stretch in liquidity
- Deterioration in the financial risk profile

Material covenants

None

Liquidity Position

Adequate

Liquidity of the company is adequate marked by adequate net cash accruals to service its debt repayment obligations. The Net cash accruals of the company stood at Rs. 2.18 crore in FY22 as against repayment obligation of Rs. 0.50 crore during the same period. Further, the net cash accruals are expected to remain adequate to meet its debt obligation in the near term. The company's reliance on bank limits is low with average utilization of 34.87 percent for 5 months ended December 2022. The company maintains unencumbered cash balance of Rs. 0.07 crore as on March 31, 2022

Acuite believes that the liquidity of the company is expected to remain adequate in the near to medium term.

Outlook: Stable

Acuité believes SOEPL will maintain 'Stable' business risk profile in the medium term on the back of established operational track record, long standing experience of the promoters in the business and established relations with reputed customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in case of sustained improvement in operating income while maintaining its profitability and improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of lower than expected operating performance or elongation of working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	38.78	31.90
PAT	Rs. Cr.	2.07	1.73
PAT Margin	(%)	5.34	5.42
Total Debt/Tangible Net Worth	Times	0.98	0.95
PBDIT/Interest	Times	3.60	3.54

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

Brickworks vide its press release dated 16.12.2022, had rated the company to BWR B+/A4 (Stable); Issuer Not Cooperating.

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A4+ Assigned
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BB+ Stable Assigned
Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.98	ACUITE BB+ Stable Assigned

Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.12	ACUITE BB+ Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.88	ACUITE BB+ Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.12	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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