

April 29, 2022^(Revised)

Ocean Sparkle Limited: Long-term rating placed under Watch with Positive Implications; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Non-convertible Debenture Programme	51.25	40.00	[ICRA]AA-%; rating placed under Watch with Positive Implications
Long-term, Fund-based Term Loan	419.34	375.89	[ICRA]AA-%; rating placed under watch with Positive Implications
Long-term, Fund-based Working Capital Facilities	43.00	43.00	[ICRA]AA-%; rating placed under watch with Positive Implications
Short-term, Non-fund Based Working Capital Facilities	150.00	150.00	[ICRA]A1+; reaffirmed
Long-term/short-term, Unallocated	180.66	224.11	[ICRA]AA-%/[ICRA]A1+; long-term rating placed under watch with Positive Implications; short-term rating reaffirmed
Total	844.25	833.00	

*Instrument details are provided in Annexure-1; % - Under watch with positive implications

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Ocean Sparkle Limited (OSL) and its subsidiaries, Sparkle Port Services Limited (SPSL), Sparkle Terminal and Towage Services Limited (STTSL), collectively referred to as the OSL Group due to their managerial, operational and financial linkages.

According to a press release of April 22, 2022, Adani Ports and Special Economic Zone Ltd (APSEZ) (rated [ICRA]AA+ (Stable)/[ICRA]A1+) through its subsidiary, The Adani Harbour Services Ltd (TAHSL), has entered into a definitive agreement to acquire a 100% stake in OSL. With this, OSL will be a wholly-owned subsidiary of TAHSL. The deal is expected to be completed within a month. ICRA has taken note of this development and has placed the long-term rating of [ICRA]AA- under Watch with Positive Implications, as the proposed acquisition is expected to strengthen the operational and financial profile of the OSL Group, and reaffirmed the short-term rating at [ICRA]A1+.

The rating action considers the company's extensive track record and considerable experience in the business of port operations and management (O&M) services, its leadership position in the segment, the medium-to-long tenure of its customer contracts and the take-or-pay provisions that helped the company's performance remain unimpacted in FY2021 and FY2022 despite moderation in port cargo traffic due to the Covid-19 pandemic. The credit profile derives comfort from the large and diversified fleet and OSL's track record of getting repeat business from contract renewals / extensions and healthy bidding success rate of new contracts. The renewal risk is also mitigated by its dominant market share. Further, the long-term demand outlook for port O&M services remains favourable, driven by large-scale ongoing and proposed port developments in India. ICRA, however, notes that other segments such as dredging and offshore supply vessel (OSV) entails additional business risks for the company. While the dredging segment remains susceptible to lumpiness in order flow, expected potential orders provide comfort in the near term. Moreover, the OSV segment had witnessed a steep reduction in rates during contract renewal/re-negotiation in the past few years, which had adversely impacted the profitability from this segment; although the impact has been partly mitigated by rationalisation of operating costs by the company. The company has two vessels in OSV

segment for which the current contracts have expired. However, it has entered into letter of intent (LOI) with ONGC for provision of one vessel and it is in the process of selling the other vessel mitigating the renewal risk to an extent.

The ratings are also supported by OSL's financial profile evident from its healthy profitability indicators, a satisfactory capital structure and moderate coverage indicators. Further, its liquidity profile is strong with high unencumbered cash balances, unutilised bank limits and high financial flexibility. The ratings are, however, constrained by the inherently high capital intensity of the business, which leads to moderate return indicators, and the large-scale and primarily debt-funded expansion plans of the company. Moreover, while its profitability remains vulnerable to idle vessel time and the competition in the port O&M sector, ICRA notes that the track record of healthy vessel utilisation levels and contract renewals mitigate the risk. Further, any larger-than-expected debt-funded capex or a large-scale M&A activity, if undertaken, would be an event-based rating sensitivity.

Key rating drivers and their description

Credit strengths

Extensive track record and leading market position in Indian port O&M services sector – OSL, incorporated in 1995, along with its subsidiaries and JV, provides port O&M services. With a fleet of around 110 vessels (as on December 31, 2021), it is the largest player in the domestic O&M market. The promoters have extensive experience in the sector.

Favourable long-term demand outlook for port management and other marine services – OSL provides port O&M services and accordingly the growth in its business is directly linked to the scale of activity and investments in the port sector. The positive outlook for cargo growth is expected to boost the growth in port O&M business, which augurs well for companies such as OSL.

Stable business model and good track record of repeat business – The Group's business model is primarily based on long-term contracts, with tenures ranging from two to fifteen years and a provision for further extensions/renewals based on mutual agreements. Further, the take-or-pay provision of contracts results in assured revenue irrespective of throughput and vessels handled by ports. While a portion of its existing orders are due for renewal in the next two years, the renewal risk is mitigated by its dominant market position, diversified fleet and healthy track record of getting repeat business from contract renewals/extensions. OSL's healthy bidding success rate on new contracts provides comfort to its growth prospects and revenue generation capability. ICRA also notes that the competitive intensity has moderated in recent years in the O&M segment, due to financial constraints faced by some of the other players in the segment.

Moderate financial risk profile with healthy profitability indicators – OSL's financial profile remains comfortable, evident from its healthy profitability indicators, a satisfactory capital structure and moderate coverage indicators. OSL, on a consolidated basis, reported growth in revenue and operating profitability in FY2021 at Rs. 629.0 crore (P.Y. Rs. 599.8 crore) and 52.3% (P.Y. 47.7%), respectively, aided by healthy port operations revenue. In FY2022, the revenue moderated slightly to ~Rs. 600 crore impacted by the dredging and OSV segments; however, the operating margin remained healthy at around ~51%. At a consolidated level, the Group had an outstanding debt of Rs. 683.4 crore as on March 31, 2021 (against Rs. 788.8 crore as on March 31, 2020), which has further reduced to Rs. 540.4 crore as on September 30, 2021. As a result, the net debt/OPBITDA improved to less than 0.9 times in H1 FY2022 from 1.2 times in FY2021.

Credit challenges

High capital intensity necessitating debt-funded capex – The inherently high capital intensity of the business necessitates periodic large-scale debt-funded expansion of fleet. Further, any timing mismatches in the intermediary period between asset acquisition and deployment can impact its profitability. However, the company's policy of acquiring vessel only when the visibility on the contracts pipeline is good, moderates the risk. At present, the company has a moderate debt-funded vessel

acquisition plan, for which the capital structure is expected to remain comfortable in the near term. Although the company has debt-funded vessel acquisition plans, the capital structure is expected to remain comfortable in the near term.

Business and financial risks associated with OSV segment – The company had entered the OSV segment a few years back to get diversification benefits and enjoy the healthy margin then available in this segment. However, over the years, OSL has witnessed a steep reduction in rates for its platform supply vessels (PSVs) during contract renewal/re-negotiation, in line with the industry trends, which has adversely impacted the profitability from this segment. However, the impact has been partly mitigated by the rationalisation of operating costs by the company. The company has two vessels in OSV segment for which the current contracts have expired. However, it has entered into letter of intent (LOI) with ONGC for provision of one vessel and it is in the process of selling the other vessel mitigating the renewal risk to an extent.

Susceptibility of dredging segment to lumpiness in order flows – As the dredging segment's performance had remained subdued till FY2018 due to lumpiness in order flows and cancellation of some large orders, it witnessed a significant improvement in FY2019 and remained stable in FY2020 due to the execution of a few large orders. The dredging segment's revenue in FY2021 remained largely in line with FY2020 but declined in FY2022. However, the company has a good track record of securing new orders, which is expected to maintain the revenue in the coming fiscals.

Moderate return indicators – The return indicators have been moderate despite healthy profitability due to the inherently high capital intensity of the business.

Liquidity position: Strong

At a consolidated level, OSL's liquidity position is expected to remain strong with healthy cash accruals, surplus free cash and liquid investments and unutilised working capital limits. At a consolidated level, surplus free cash and liquid investments was ~Rs. 272.2 crore as on September 30, 2021. The fund-based limits of Rs. 43 crore are unused because of healthy cash accruals. As on December 31, 2021, the outstanding amount of term loans was ~Rs. 552.7 crore, the repayment obligations towards which are ~Rs. 23 crore in Q4 FY2022, ~Rs. 115.0 crore in FY2023 and ~Rs. 70.5 crore in FY2024. Going forward, the company has plans to incur a capex of ~Rs 440 crore in FY2023 for the purchase of vessels, ~Rs 200-220 crore in FY2024 and ~Rs. 230-250 crore in FY2025. The capex is expected to be funded through a mix of debt, existing cash balances and internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a substantial growth in revenue and profitability on a sustained basis, and the company maintains or improves its capital structure and coverage indicators. The successful completion of OSL's acquisition by Adani Ports and Special Economic Zone through its wholly-owned subsidiary, The Adani Harbour Services Limited, could also be a positive trigger.

Negative factors – Pressure on OSL's ratings may arise if there is significant reduction in revenue and profitability, or significant impact on the credit profile caused by higher-than-expected debt-funded capital expenditure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	While arriving at the ratings, ICRA has taken a consolidated view of Ocean Sparkle Limited (OSL) and its subsidiaries- Sparkle Port Services Limited (SPSL), Sparkle Terminal and Towage Services Limited (STTSL). As on March 31, 2021, the

company had five subsidiaries and a joint venture, which are all enlisted in Annexure-2.

About the company

Ocean Sparkle Limited (OSL), its subsidiary and its joint-venture (JV) companies, collectively referred to as the OSL Group, is involved in the provision of marine vessels and comprehensive port management services across various major, non-major and captive ports in India and abroad. The core promoters of OSL include four technocrats, namely, Mr. P. Jairaj Kumar (Chairman-cum-Managing Director), Mr. Sanjeev Dhawan, Mr. A. K. Sawhney and Mr. R. Virender Prasad, who together hold a 35% stake in the company. Another 2% stake is held by friends and relatives of the promoters, a 10% stake is with NRIs while the balance 53% is held by various PE investors and venture capital funds including Park Equity, Infrastructure India Holdings Fund, Standard Chartered Private Equity and IFC Washington (as on March 31, 2022). On April 22nd, 2022, Adani Ports and Special Economic Zone Ltd (APSEZ) through its subsidiary, The Adani Harbour Services Ltd (TAHSL), has entered into a definitive agreement for acquisition of a 100% stake in OSL. With this, OSL will be a wholly-owned subsidiary of TAHSL. APSEZ will pay Rs. 1,135.30 crore for direct acquisition of a 75.69% stake in OSL and Rs.394.87 crore for indirect acquisition of a 24.31% stake. The deal is expected to be completed within a month.

Key financial indicators (audited)

OSL Consolidated	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	599.8	629.0	291.7
PAT (Rs. crore)	131.1	168.3	70.1
OPBDIT/OI (%)	47.7%	52.3%	48.6%
PAT/OI (%)	21.9%	26.8%	24.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6	0.5
Total Debt/OPBDIT (times)	2.8	2.1	1.9
Interest Coverage (times)	4.5	5.1	4.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY 2022	Date & Rating in FY 2021	Date & Rating in FY2020	
								02-Mar-20	07-May-2019
1	NCD 1	Long Term	30.00	30.00	[ICRA]AA-%	[ICRA]AA-(stable)	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)
2	NCD 2	Long Term	10.00	10.00	[ICRA]AA-%	[ICRA]AA-(stable)	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)
3	Term Loans	Long Term	375.89	375.89	[ICRA]AA-%	[ICRA]AA-(stable)	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)
4	Cash Credit	Long Term	43.00	-	[ICRA]AA-%	[ICRA]AA-(stable)	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)
5	Non-Fund Based	Short Term	150.00	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
6	Unallocated	Long Term/Short Term	224.11	-	[ICRA]AA-%/[ICRA]A1+	[ICRA]AA-(stable)/[A1+	-	[ICRA]AA-(stable)/A1+	[ICRA]AA-(stable)/A1+

%- Under watch with positive implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
Term Loans	Simple
Cash Credit	Simple
Non-Fund Based	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE758N07023	Non-Convertible Debentures	02-Aug-17	8.50%	02-Aug-22	30.00	[ICRA]AA-%
INE758N07015	Non-Convertible Debentures	11-Jul-17	8.50%	11-Jul-22	10.00	[ICRA]AA-%
NA	Term Loan -1	FY2014	-	FY2022	3.37	[ICRA]AA-%
NA	Term Loan -1	FY2016	-	FY2026	7.33	[ICRA]AA-%
NA	Term Loan -1	FY2016	-	FY2026	5.71	[ICRA]AA-%
NA	Term Loan -1	FY2016	-	FY2026	10.10	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	19.74	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	19.74	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	11.84	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	18.75	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	20.39	[ICRA]AA-%
NA	Term Loan -1	FY2018	-	FY2033	36.06	[ICRA]AA-%
NA	Term Loan -1	FY2022	-	FY3031	26.53	[ICRA]AA-%
NA	Term Loan -1	FY2014	-	FY2023	0.50	[ICRA]AA-%
NA	Term Loan -1	FY2015	-	FY2022	4.28	[ICRA]AA-%
NA	Term Loan -1	FY2019	-	FY2025	14.61	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	22.34	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	11.37	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	56.80	[ICRA]AA-%
NA	Term Loan -1	FY2020	-	FY2030	53.52	[ICRA]AA-%
NA	Term Loan -1	FY2016	-	FY2023	8.97	[ICRA]AA-%
NA	Term Loan -1	FY2021	-	FY2031	23.95	[ICRA]AA-%
NA	Cash Credit	-	-	-	43.00	[ICRA]AA-%
NA	Non-Fund Based Limits	-	-	-	150.00	[ICRA]A1+
NA	Unallocated Limits	-	-	-	224.11	[ICRA]AA-%/[ICRA]A1+

Source: Company; %- under watch with positive implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	OSL Ownership	Consolidation Approach
Ocean Sparkle Limited	100.00% (rated entity)	Full Consolidation
Sparkle Port Services Limited	100.00%	Full Consolidation
Sparkle Terminal and Towage Services Limited	100.00%	Full Consolidation
Sparkle Overseas Pte. Ltd.	100.00%	Full Consolidation
Sparkle Marine Company Limited	80.00%	Full Consolidation
Sea Sparkle Harbour Services Limited	55.49%	Full Consolidation
Khimji's Sparkle Marine Services Co SOAC	49.00%	Equity Method

Source: OSL

Corrigendum

Document dated April 29, 2022 has been corrected with revisions as detailed below:

- *KFI table on page no. 4: Figures related to interest coverage ratio for OSL consolidated has been corrected.*

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