March 13, 2023

Ocean Sparkle Limited: Ratings reaffirmed; Long term rating removed from rating watch with positive implications; NCD rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Non-convertible debenture programme	40.00	-	[ICRA]AA- (Stable); reaffirmed and withdrawn; rating removed from rating watch with positive implications
Long-term – Fund based - Term loans	375.89	-	-
Long-term – Fund based – Working capital facilities	43.00	34.00	[ICRA]AA- (Stable); reaffirmed; rating removed from rating watch with positive implications
Short-term - Non-fund based – Working capital facilities	150.00	150.00	[ICRA]A1+; reaffirmed
Long-term/Short-term – Unallocated limits	224.11	-	-
Total	**833.00**	**184.00**	

Instrument details are provided in Annexure-I

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.

ICRA had earlier placed the long-term rating under watch with positive implications following the announcement of OSL's acquisition by Adani Ports and Special Economic Zone Limited (APSEZ; rated [ICRA]AA+ (Negative)/[ICRA]A1+) through its subsidiary, The Adani Harbour Services Ltd (TAHSL). ICRA notes that the acquisition has been completed.

The rating action factors in the adverse impact on the Adani Group's financial flexibility, following a sharp decline in share prices and an increase in the yield of international bonds raised by group entities. This followed a report published by a USA-based short seller. ICRA notes that the Adani Group's strong financial flexibility and its track record of refinancing a large part of its debt with borrowings (mostly from overseas debt capital markets) of longer tenures at lower interest rates were the key credit strengths, which have been adversely impacted. ICRA will be monitoring the Adani Group's ability to raise funds from domestic/global market as equity/debt at competitive rates. Further, ICRA sees an increased risk of regulatory/legal scrutiny on the Adani Group entities and its impact on the credit quality of the OSL Group will be monitored.

The ratings continue to factor in the company's extensive track record and considerable experience in 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 healthy in FY2022 and 9M FY2023. 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 the healthy bidding success rate of the 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. However, the company has completely divested its dredging business to its group company in 9M FY2023 and sold all the equipment related to the same to that entity. The OSV segment had been witnessing a steep reduction in rates during contract renewal/re-negotiation in the past few years, which adversely impacted the profitability from this segment; the impact has been partly mitigated by the rationalisation of the operating costs by the company. The company has deployed two vessels in this segment to ONGC and both the contracts are long term in nature with a tenure of three years.

The ratings are also supported by OSL's financial profile, evident from its healthy profitability indicators, comfortable capital structure and healthy coverage indicators. Further, its liquidity profile is strong with healthy cash flow from operations, unutilised bank limits and unencumbered cash balances.

The ratings are, however, constrained by the inherently high capital intensity of the business, which leads to moderate return indicators, and the large-scale expansion plans of the company. Moreover, while its profitability remains vulnerable to idle vessel time and competition in the port O&M sector, ICRA notes that the track record of healthy vessel utilisation levels and contract renewals mitigates 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.

ICRA has also withdrawn the rating outstanding on the Rs. 40.00-crore non-convertible debenture programme as the same has been redeemed and no amount is outstanding against the rated instrument. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

The Stable outlook reflects ICRA's opinion that OSL's credit profile will continue to benefit from its dominant market position, its large fleet and its extensive experience in the port O&M segment, supported by a favourable long-term demand outlook for the port O&M services.

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 99 vessels (as on December 31, 2022), 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 growth in the 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 the throughput and vessels handled by the 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, a diversified fleet and a 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.

Comfortable financial risk profile with healthy profitability indicators – OSL's financial profile remains comfortable, evident from its healthy profitability indicators, a healthy capital structure and comfortable coverage indicators. On a consolidated basis, OSL's revenue and operating profitability declined in FY2022 to Rs. 606.3 crore (P.Y. Rs. 629 crore) and 49.5% (P.Y. 52.3%), respectively, owing to the reduction in turnover from the PSV and dredging segments. During 9M FY2023, the financials remained healthy with revenues of ~Rs. 458 crore and operating profitability of 44.9% at the consolidated level. The company has repaid all its term loans, except for the NCDs at SPTSL. The loans were repaid using existing cash balances and unsecured loan from TASHL. The company's coverage metrics had remained comfortable. During 9M FY2023, on a consolidated basis, the interest coverage and DSCR stood at 8.8 and 2.0 times, respectively. Further, the net debt/OPBITDA declined to 0.3 times as on December 30, 2022.

Credit challenges

High capital-intensive nature of business – The inherently high capital intensity of the business necessitates periodic large-scale 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 of the contract pipeline is good moderates the risk. At present, the company has no major debt-funded vessel acquisition plan, for which 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 deployed two vessels in this segment to ONGC and both the contracts are long term in nature with a tenure of three years.

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 operating cash flows, unutilised working capital limits and unencumbered cash and bank balances. At a consolidated level, surplus free cash and liquid investments stood at ~Rs. 156.7 crore as on December 31, 2022 and fund-based limits of Rs. 19 crore remained unutilised. The company has repayment obligations of ~Rs. 2.3 crore in Q4 FY2023, and ~Rs. 9.0 crore in FY2024 and FY2025 each which would be comfortably met from the strong internal accruals. Going forward, the company plans to incur a capex of ~Rs 120 crore in FY2024 and FY2025 each for the purchase of vessels with a mix of internal accruals and debt from parent.

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. Further, improvement in the credit profile of the parent could be a positive trigger.

Negative factors – Pressure on the 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. Further, weakening in the parent company's credit profile or weakening of linkages with the parent could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach –Implicit Support From Parent Or Group Consolidation and Rating Approach Policy on withdrawal of Credit Ratings
Parent/Group support	Parent/Group Company: Adani Ports and Special Economic Zone Limited The ratings draw comfort from the likelihood of support from the ultimate parent company for the rated entity, should there be a need in future, given the strategic importance of the rated entity to the parent group.
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, 2022, 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, are engaged in the provision of marine vessels and comprehensive port management services across various major, non-major and captive ports in India and abroad.

In May 2022, Adani Ports and Special Economic Zone Limited (APSEZ) acquired a majority stake in the company through its subsidiary, The Adani Harbour Services Ltd (TAHSL). Accordingly, from May 2022, TAHSL became the holding company and APSEZ the ultimate holding company. TAHSL directly or indirectly held 98.52% in OSL as on December 31, 2022. After the divestment, the earlier directors stepped down and new directors were nominated. Mr. P Jairaj Kumar continues to be on the Board as Chairman and Non-Executive Director.

The OSL Group also includes one JV entity with PSA Marine Pte Ltd (PSAM) of Singapore - Sea Sparkle Harbour Service Ltd (56:44 JV) - and two 100% subsidiaries, viz. Sparkle Port Services Limited (for operations at Petronet LNG Limited's jetty at Kochi) and Sparkle Terminal and Towage Services Limited (for operations at Petronet LNG Limited's jetty at Dahej).

Key financial indicators (Consolidated - Audited)

OSL Consolidated	FY2021	FY2022	9M FY2023#
Operating income	629.0	606.3	458.3
PAT	168.3*	161.9	128.2
OPBDIT/OI	52.3%	49.5%	44.9%
PAT/OI	26.8%*	26.7%	28.0%
Total outside liabilities/Tangible net worth (times)	0.61	0.43	0.23
Total debt/OPBDIT (times)	2.08	1.76	0.97
Interest coverage (times)	5.07	5.65	8.80

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *adjusted for impairment loss, #provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
					Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Mar 13, 2023	Apr 29, 2022	Apr 08, 2021	-	Mar 02, 2020	May 07, 2019
1	NCD 1	Long term	30.00	--	[ICRA]AA- (Stable); Withdrawn	[ICRA]AA-%	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	NCD 2	Long term	10.00	--	[ICRA]AA- (Stable); Withdrawn	[ICRA]AA-%	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Term loans	Long term	-	--	-	[ICRA]AA-%	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

4	**Fund based – Working capital facilities**	Long term	34.00	--	**[ICRA]AA- (Stable)**	**[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+**	**[ICRA]A1+**
6	**Unallocated limits**	Long term/Short term	-	--	**-**	**[ICRA]AA- % /[ICRA]A1 +**	**[ICRA]AA- (Stable) /[ICRA]A1+**	**-**	**[ICRA]AA- (Stable) /[ICRA]A1+**	**[ICRA]AA- (Stable) /[ICRA]A1+**

Note: %; Rating watch with positive implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
Long-term - Fund based – Working capital facilities	Simple
Short-term – Non-fund based limits	Very Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE758N07023	Non-convertible debentures	-	-	-	30.00	[ICRA]AA-(Stable); withdrawn
INE758N07015	Non-convertible debentures	-	-	-	10.00	[ICRA]AA-(Stable); withdrawn
NA	Long-term – Fund-based – Working capital facilities	-	-	-	34.00	[ICRA]AA- (Stable)
NA	Short-term – Non-Fund based limits	-	-	-	150.00	[ICRA]A1+

Source: Company

Please Click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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	95.00%	Full Consolidation
Sea Sparkle Harbour Services Limited	55.59%	Full Consolidation
Khimji's Sparkle Marine Services Co SOAC	49.00%	Equity Method

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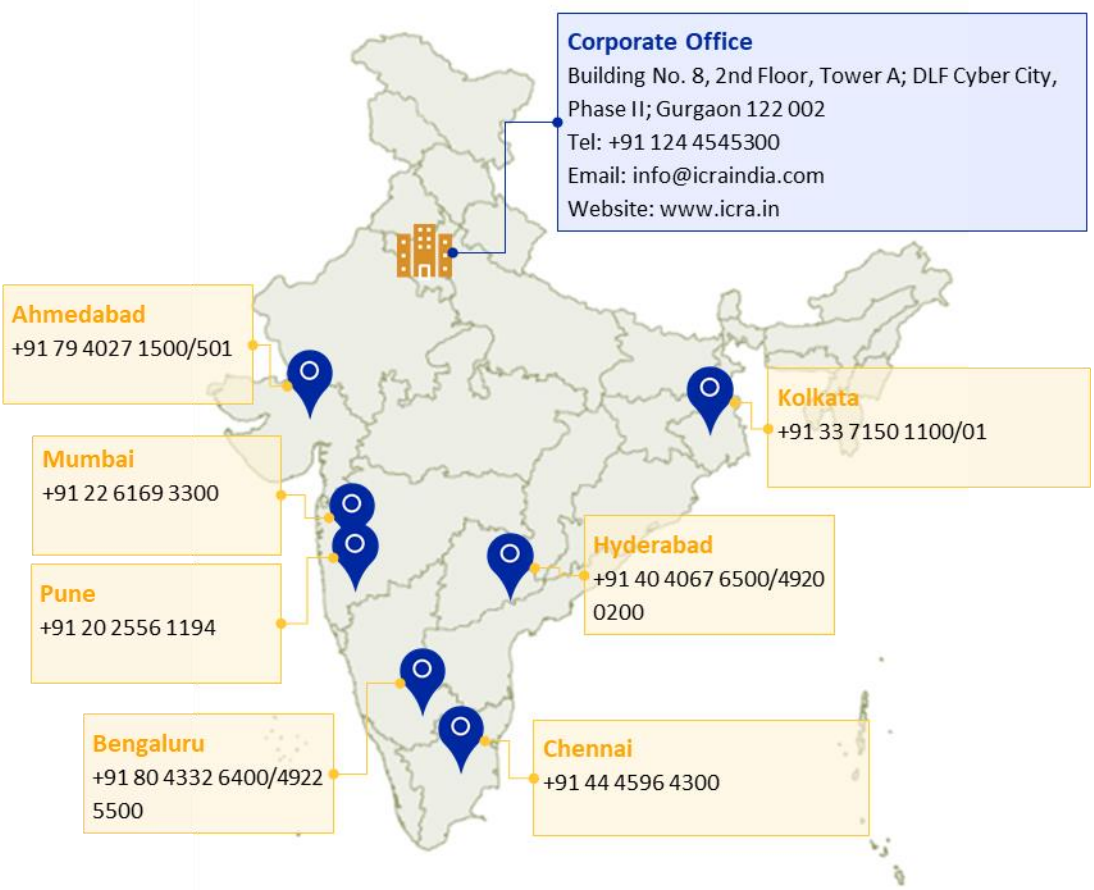

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