

January 12, 2024

Castle Ships Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	0.00	10.00	[ICRA]A-(Stable); reaffirmed
Long term – Fund-based - Term loan	137.18	181.53	[ICRA]A-(Stable); reaffirmed
Long term - Unallocated	62.82	8.47	[ICRA]A-(Stable); reaffirmed
Total	200.00	200.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in the extensive experience of the promoters of Castle Ships Private Limited (CSPL or the company) in the shipping business, which has resulted in established relationships with its client base. The ratings draw comfort from the company's strong financial risk profile, characterised by healthy margins and comfortable coverage indicators. ICRA further notes the presence of a debt service reserve account (DSRA), comprising one quarter's principal and interest payments and healthy unencumbered cash and cash equivalents, which support the company's liquidity position. The rating favourably factors in the strong counterparty credit profile of its reputed customer base, which includes public sector oil companies in India.

The rating, however, remains constrained by CSPL's moderate scale of operations and the exposure of its operating performance to the timely renewal of time-chartering agreements, given the short-term (one to two years) nature of the contracts and the deployment of the vessel operating on voyage charter. The company owns six vessels, and the revenues remain concentrated towards the oil tanker segment. The company's ability to garner favourable charter rates for the vessels will be critical for its profitability and cash accruals in the medium to long term. ICRA notes the recent healthy increase in charter rates in the oil tanker segment, which is expected to support the profitability and cash accruals in the near to medium term.

The rating also remains tempered by CSPL's relatively large capital requirement to procure new vessels to augment its capacity and replace the ageing vessels. The company added a new vessel in H1 FY2024 which was funded through 70% debt and the balance from internal accruals and existing cash & cash equivalents. Hence, a judicious funding mix for the new vessels to restrict any moderation of coverage indicators from the present levels and the deployment of vessels at attractive rates remain critical from a credit perspective. ICRA also notes the long pending receivables for more than a year pertaining to the sold passenger cruise ship. The rating also factors in the vulnerability of the operating income to the inherent cyclicity in the shipping business, regulatory changes and segmental concentration risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that CSPL will continue to benefit from its favourable operational track record, its reputed clientele and prudent risk management practices.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in shipping industry – The key promoters of the business, Mr. Rajiv Bhatia and Mr. Ravi Bhatia, have extensive experience of more than two decades in the shipping industry through CSPL and IndAust Maritime Private Limited (holding company of CSPL), which resulted in healthy relationships with the charterers. Further, promoters

have adopted prudent risk management practices, such as undertaking capex only when vessel deployment is assured and maintaining adequate cash reserves to service next one year's debt repayment obligations. The company added a new vessel in H1 FY2024, which was funded through 70% debt and the balance from internal accruals and existing cash & cash equivalents. This purchase moderated the free cash reserves. However, the free cash and liquid investment as on December 31, 2023 is adequate to service the next nine month's debt repayment obligations. Further, with the increase in revenue inflow from the new vessel, the reserve is likely to increase.

Reputed customer base with low counterparty credit risk - The customer base of CSPL mainly includes reputed public sector companies in the oil and gas industry, such as Indian Oil Corporation Ltd. {[ICRA]AAA(Stable)}/{[ICRA]A1+} and Bharat Petroleum Corporation Limited {[ICRA]AAA(Stable)}, which mitigates the counterparty credit risk to a large extent. Further, five of the six oil tanker vessels operate on time charter contracts, ensuring stability and certainty of cash flows as the charter rates are fixed over the period of the charter agreement.

Healthy financial risk profile with comfortable coverage indicators - CSPL's financial risk profile remains healthy, characterised by comfortable coverage indicators and adequate liquidity. The coverage indicators are comfortable, with an interest coverage of 11.3 times (FY2022 - 10.9 times), NCA/TD of 67% (FY2022 - 60%) and total debt/OBDITA of 1.3 times (FY2022 - 1.5) in FY2023. The company has adequate liquidity profile with free cash and cash equivalents of ~Rs. 66 crore as on December 31, 2023.

Credit challenges

Moderate scale of operations; operating performance remains susceptible to timely renewal of contracts and ability to garner favourable charter rates – The operating income was moderate at Rs. 200 crore in FY2023 and Rs. 216 crore in 9M FY2024, though it increased from Rs. 133.1 crore in FY2022 with the addition of a new vessel and healthy charter rates. CSPL has six oil tanker vessels. Of the six oil tankers, five vessels are deployed on time charter, while one is on voyage charter. The long-term revenue visibility depends on the timely renewal of time-chartering agreements owing to the short tenure of the time-charter contract (one to two years) and deployment of the vessel operating on voyage charter.

The company's ability to garner favourable charter rates for the vessels will be critical for its profitability and cash accruals in the medium to long term. ICRA, however, notes that the company has a track record of contract renewal for the oil tankers, which mitigates the risk to a certain extent. ICRA also notes that the healthy increase in charter rates in the oil tanker segment is expected to support the profitability and cash accruals in the near to medium term.

Large capital requirement given capital-intensive operations – CSPL's operations are capital-intensive and rely on debt-funded capex to increase the fleet and replace the old vessels. A higher-than-anticipated debt-funded capex may put pressure on the debt coverage indicators and will be monitored by ICRA.

Vulnerability of revenues to inherent cyclicity in shipping industry, regulatory changes and segmental concentration risk - While the shipping industry has witnessed considerable volatility in the past, CSPL's exposure to such volatility is heightened by the segmental concentration risk, with the oil tanker segment accounting for the entire operating income. The sector is also exposed to changes in domestic and international regulations. Any adverse changes in domestic regulatory policies or global regulatory norms, as imposed by the International Maritime Organisation, may impact the company's revenue growth and profitability.

Liquidity position: Adequate

The liquidity profile of CSPL has remained adequate owing to positive cash flow from operations. The liquidity profile of the company is further strengthened by the presence of a DSRA to meet three months of debt obligations. Further, the unencumbered cash and cash equivalents and liquid investments stood at ~ Rs. 66 crore as on December 31, 2023. CSPL has repayment obligations of ~ Rs. 58 crore in FY2024 and ~ Rs. 53 crore in FY2025 for its existing term loans. In addition, CSPL plans to undertake additional debt-funded capex to add new vessels in the medium term. ICRA, however, expects the company's cash accruals and unencumbered cash and cash equivalents to be sufficient to meet its repayment obligations comfortably over the medium term.

Rating sensitivities

Positive factors –The rating could be revised upwards if there is a healthy improvement in the scale of operations while maintaining healthy profitability and liquidity position.

Negative factors – Pressure on the rating could arise if there is a substantial decrease in operating income, profitability and/or weakening in liquidity position. A specific credit metric for downgrade includes total debt to OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Shipping Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of CSPL

About the company

Castle Ships Private Limited was incorporated in 2006 by Mr. Rajiv Bhatia and Mr. Ravi Bhatia for chartering ships. IndAust Maritime Private Limited, which provides engineering services to the shipping industry, owns a majority stake in CSPL. CSPL has six oil tanker vessels. Of the six oil tankers, five vessels are deployed on time charter, while one is on voyage charter. CSPL engages closely with oil marketing companies, understands their domestic requirements and participates in their coastal distribution of petroleum products to various ports/destinations in India. The registered office of the company is in Navi Mumbai.

Key financial indicators (audited)

	FY2022	FY2023	H1FY2024*
Operating income	133.1	200.0	132.4
PAT	38.7	58.5	46.5
OPBDIT/OI	48.3%	45.7%	52.4%
PAT/OI	29.1%	29.3%	35.1%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.8
Total debt/OPBDIT (times)	1.5	1.3	1.4
Interest coverage (times)	10.9	11.3	9.5

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 12, 2024	Dec 16, 2022	Nov 10, 2021	Aug 27, 2020
1 Fund-based - Cash credit	Long Term	10.00	-	[ICRA]A-(Stable)	-	-	-
2 Fund-based - Term loan	Long Term	181.53	181.53	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
3 Unallocated	Long Term	8.47	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based - Cash credit	Simple
Long term- Fund-based - Term loan	Simple
Long term - 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	10.00	[ICRA]A-(Stable)
NA	Term loan I	FY2020	NA	Dec 2024	11.17	[ICRA]A-(Stable)
NA	Term loan II	FY2020	NA	May 2025	11.54	[ICRA]A-(Stable)
NA	Term loan III	FY2022	NA	May 2024	6.51	[ICRA]A-(Stable)
NA	Term loan IV	FY2022	NA	Feb 2025	5.75	[ICRA]A-(Stable)
NA	Term loan V	FY2023	NA	April 2028	43.01	[ICRA]A-(Stable)
NA	Term loan V A	FY2023	NA	April 2028	2.25	[ICRA]A-(Stable)
NA	Term loan V B	FY2023	NA	April 2028	3.13	[ICRA]A-(Stable)
NA	Term loan VI	FY2024	NA	Sep 2029	98.17	[ICRA]A-(Stable)
NA	Unallocated limits	NA	NA	NA	8.47	[ICRA]A-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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