March 28, 2024

Sparkle Terminal and Towage Services Limited: Rating upgraded to [ICRA]AA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Non-Convertible Debenture Programme	67.75	58.75*	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Long-term - Non-Fund Based	11.50	11.50	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Total	**79.25**	**70.25**	

**Instrument details are provided in Annexure-I; * No ISIN has been fully repaid/redeemed*

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.

The rating upgrade factors in the improvement in the credit risk profile of the parent group - Adani Ports and Special Economic Zone {APSEZ, rated [ICRA]AA+(Stable)/[ICRA] A1+} - and an improvement in the operating profitability of the OSL Group. ICRA had revised the outlook on the long-term rating of APSEZ to Stable from Negative in February 2024. The operating margins of the OSL Group improved to ~57% in 9M FY2024 from 47% in FY2023 owing to a reduction in costs after acquisition by reducing idle time for the tugs, optimisation of teams, reduced employee costs along with renewal of contracts at higher rates.

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 FY2023 and 9M FY2024. 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 offshore supply vessel (OSV), entails additional business risks for the company. 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 adequate 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 ongoing 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 large debt-funded capex or a large-scale M&A activity, if undertaken, would be an event-based rating sensitivity.

The Stable outlook on the long-term rating 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 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 87 vessels (as on December 31, 2023), it is the largest player in the domestic O&M market.

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 15 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 the vessels handled by the ports. The company got several contracts renewed in the current fiscal at higher rates. While a portion of its existing orders are due for renewal in the next year, 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 in 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 the 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 remained broadly flat in FY2023 at Rs. 615.2 crore (P.Y. Rs. 606.3 crore) and 47.1% (P.Y. 49.5%), respectively. During 9M FY2024, the financials remained healthy with revenues of ~Rs. 470.8 crore and operating profitability of 57.0% at the consolidated level. The improvement in operating profitability is attributable to various factors, including reduced idle time for the tugs, optimisation of teams, reduced employee costs and renewal of contracts at higher rates. The company has repaid all its term loans, except for the NCDs at STTSL. The loans were repaid using existing cash balances and unsecured loan from AHSL. The company's coverage metrics had remained comfortable. During 9M FY2024, on a consolidated basis, the interest coverage stood at 35.33 times and DSCR at 3.4 times.

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 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 although the same improved in 9M FY2024 - The return indicators have been moderate till FY2023, despite healthy profitability, due to the inherently high capital intensity of the business. However, the return on capital employed improved in 9M FY2024 due to higher operating profitability in 9M FY2024 and a significant reduction in debt levels.

Liquidity position: Adequate

At a consolidated level, OSL's liquidity position is expected to remain adequate with healthy operating cash flows. The repayment obligations remain low at ~Rs. 9.00 crore per annum in FY2025 and FY2026, which would be comfortably met from operating cash flows. At a consolidated level, the surplus free cash and liquid investments stood at ~Rs. 30.6 crore as on December 31, 2023 and fund-based limits of Rs. 4 crore remained unutilised. Going forward, the company plans to incur a capex of ~Rs. 100 crore each in FY2025 and FY2026 for the purchase of vessels, which is expected to be funded by 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. 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
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, 2023, the company had four subsidiaries and a joint venture, which are all enlisted in Annexure II

About the company

Sparkle Terminal and Towage Services Limited (STTSL, the company) is a Special purpose Vehicle (SPV) incorporated on August 26, 2016 by Ocean Sparkle Limited (OSL) to provide services of four tugboats, one m0arine craft, personnel and for provision of operation (including simultaneous berthing and un-berthing of LNG tankers), management and maintenance of the facilities at Petronet LNG Limited's Dahej terminal. The project has been awarded for a concession period of 10 years, which commenced from January 2018.

Adani Ports and Special Economic Zone Limited ("APSEZ") through its subsidiary, Adani Harbour Services Limited ("AHSL"), has acquired majority stake in the Company in May 2022. Accordingly, from May 2022, AHSL has become the holding company and APSEZ has become the ultimate holding Company for your Company. AHSL directly or indirectly current holds 98.52% of holding in OSL as on Dec 31, 2023.

Key financial indicators (audited)

STTSL Standalone	FY2022	FY2023	9M FY2024*
Operating income	46.4	51.6	44.7
PAT	11.5	7.3	13.6
OPBDIT/OI	47.2%	38.2%	47.8%
PAT/OI	24.8%	14.1%	30.5%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.6
Total debt/OPBDIT (times)	3.4	3.3	2.1
Interest coverage (times)	3.2	3.2	5.1

OSL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	606.3	615.2	470.8
PAT	161.9	188.0	206.7
OPBDIT/OI	49.5%	47.1%	57.0%
PAT/OI	26.7%	30.6%	43.9%
Total outside liabilities/Tangible net worth (times)	0.43	0.16	0.11
Total debt/OPBDIT (times)	1.76	0.54	0.23
Interest coverage (times)	5.65	10.49	35.33

*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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Mar 13, 2023	Apr 29, 2022	Apr 08, 2021	-
1	NCD	Long term	58.75*	58.75	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA-%; assigned rating of [ICRA]AA-(CE) (Stable); withdrawn	[ICRA]AA-(CE)(Stable)	-
2	Non-fund Based	Long term	11.50	--	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA-%; upgraded	[ICRA]A- (Stable)	-

** No ISIN has been fully repaid/redeemed; % Rating placed under watch with positive implications*

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
Long-term - Non-Fund Based	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
INE473Y07018	**NCD**	FY2018	8.60%	FY2028	58.75*	**[ICRA]AA (Stable)**
NA	**Long-term - Non-Fund Based**	-	-	-	11.50	**[ICRA]AA (Stable)**

*Source: Company; * No ISIN has been fully repaid/redeemed*

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
Sea Sparkle Harbour Services Limited	100.00%	Full Consolidation
Khimji's Sparkle Marine Services Co SOAC	49.00%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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