January 27, 2025

Castle Ships Private Limited: Rating upgraded to [ICRA]A(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	10.00	10.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Long term – Fund-based - Term loan	181.53	103.19	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Long term - Unallocated	8.47	86.81	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in Castle Ships Private Limited's (CSPL or the company) strong financial risk profile, reflected in its comfortable coverage indicators and liquidity position on the back of prudent risk management practices and healthy profitability.

The rating draws comfort from the extensive experience of the promoters of CSPL in the shipping business, which has resulted in established relationships with its client base. 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 majorly 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 five 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 that the healthy charter rates in the oil tanker segment has supported its profitability and cash accruals in the past two financial years and the sustenance of the rates will remain a key monitorable.

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. 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. The rating also factors in the vulnerability of the operating income to the inherent cyclicality in the shipping business, regulatory changes and segmental concentration risk.

The Stable outlook on the rating reflects ICRA's expectation that CSPL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex to procure new vessels to augment its capacity and replace the ageing vessels will be funded in a manner that it is able to durably maintain its debt protection metrics, commensurate with the existing rating.

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 has resulted in healthy relationships with the charterers. Further, the 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.

Reputed customer base with low counterparty credit risk – CSPL's customers include 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, all the five oil tanker vessels operate on time charter contracts, ensuring stability and certainty of cash flows as the 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 8.3 times (FY2024 – 8.4 times), NCA/TD of 95% (FY2024 - 88%) and total debt/OBDITA of 1.0 times (FY2024 - 1.2) in H1 FY2025. The company has an adequate liquidity profile with investments, cash and cash equivalents of ~Rs. 151 crore as on September 30, 2024.

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. 290.4 crore in FY2024. It declined further to Rs. 115.7 crore in 6M FY2025 with the sale of a vessel. CSPL has five oil tanker vessels. All the five vessels are deployed on time charter. The long-term revenue visibility depends on the timely renewal of the time-charter agreements owing to the short tenure of the contracts (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 charter rates in the oil tanker segment are expected to support the profitability and cash accruals in the near to medium term.

Large capital requirement owing to capital-intensive operations - CSPL's operations are capital-intensive and it relies on debt-funded capex to expand the fleet and replace old vessels. 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. A higher debt-funded capex may put pressure on the debt coverage indicators and will be monitored.

Vulnerability of revenues to inherent cyclicality 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 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 is expected to be 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. 151 crore as on September 30, 2024. CSPL has repayment obligations of ~Rs. 27 crore in FY2026 and ~Rs. 26 crore in FY2027 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 the company exhibits a significant improvement in its scale of operations while maintaining healthy profitability, debt coverage metrics and liquidity position.

Negative factors – Pressure on the rating could arise if there is a substantial decrease in the operating income and profitability, resulting in weakened debt coverage indicators and/or liquidity position. A specific credit metric for downgrade includes a total debt to OPBDITA of more than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Shipping
Parent/Group support	While the rating for CSPL is based on the parent support approach, there is no rating upliftment based on the parent's support (Ind Aust Maritime Pvt. Ltd.), as the company's standalone credit profile rating is on a par with that of its parent
Consolidation/Standalone	The rating is based on the company's standalone financial profile

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 five oil tanker vessels and all are deployed on time 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)

	FY2023	FY2024	H1FY2025*
Operating income	200.0	290.4	115.7
PAT	58.5	121.0	43.1
OPBDIT/OI	45.7%	45.2%	50.8%
PAT/OI	29.3%	41.7%	37.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.3
Total debt/OPBDIT (times)	1.3	1.2	1.0
Interest coverage (times)	9.3	8.4	8.3

*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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 27, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based - Cash credit	Long Term	10.00	[ICRA]A (Stable)	12-Jan-24	[ICRA]A- (Stable)	-	-	-	-
Fund-based - Term loan	Long Term	103.19	[ICRA]A (Stable)	12-Jan-24	[ICRA]A- (Stable)	16-Dec-22	[ICRA]A- (Stable)	10-Nov-21	[ICRA]A- (Stable)
Unallocated	Long Term	86.81	[ICRA]A (Stable)	12-Jan-24	[ICRA]A- (Stable)	16-Dec-22	[ICRA]A- (Stable)	10-Nov-21	[ICRA]A- (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 II**	FY2020	NA	May 2025	3.21	[ICRA]A(Stable)
NA	**Term loan IV**	FY2022	NA	Feb 2025	0.77	[ICRA]A(Stable)
NA	**Term loan V**	FY2023	NA	April 2028	32.46	[ICRA]A(Stable)
NA	**Term loan V A**	FY2023	NA	April 2028	1.7	[ICRA]A(Stable)
NA	**Term loan V B**	FY2023	NA	April 2028	2.36	[ICRA]A(Stable)
NA	**Term loan VI**	FY2024	NA	Sep 2029	62.69	[ICRA]A(Stable)
NA	**Unallocated limits**	NA	NA	NA	86.81	[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

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.

For more information, visit www.icra.in

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