A.S. Moloobhoy Private Limited

August 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	1.00	0.00	-
Non-fund based- Letter of Credit	7.00	7.00	[ICRA]A4+; reaffirmed
Non-fund based- Letter of Guarantee	(4.20)	(7.00)[#]	[ICRA]A4+; reaffirmed
Unallocated limits	10.00	11.00	[ICRA]BB(Stable)/[ICRA]A4+; reaffirmed
Total	**18.00**	**18.00**	

*Instrument details are provided in Annexure-1
[#]Sub-limit within Letter of Credit (LC) Limit

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 11.00-crore[1] (earlier Rs. 10.00 crore) unallocated limits of A.S. Moloobhoy Private Limited ('ASMPL' or 'the company')[2]. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A4+ to the Rs. 7.00-crore letter of credit facility and short-term interchangeable non-fund based facilities of ASMPL.

Rationale

The reaffirmation of ratings continues to factor in ASMPL's modest scale of operations and the vulnerability of the company's operations to the cyclicality of the shipping industry. ICRA notes the operating income registered a de-growth of ~17% in FY2017, following a slowdown in the industry. Nonetheless, the company has been able to report a YoY growth in revenues of ~7% in FY2018 supported by increase in revenues from services provided by the company. The company faces stiff competition from other players in the marine services industry, which has limited its pricing flexibility, leading to moderate profitability. Additionally, the company largely caters to Government undertakings, where contracts are awarded to the lowest bidder (L1), which limits its pricing flexibility further. The ratings also take into account the stretched working capital cycle of the company as reflected by a NWC/OI of 36% as on March 31, 2018, because of the high inventory levels and elongated credit extended to customers.

The ratings, however, continue to positively factor in the established experience of the promoters in the marine services business. Additionally, the company's reputed customer base limits the counter-party credit risk to an extent and established ties with various international original equipment manufacturers (OEMs) of marine electronic and safety equipment, ensures adequate demand.

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[1] *Rs. 100 lakh = Rs. 1 crore = Rs. 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes ASMPL will continue to benefit from the extensive experience of its promoters as well as its established presence in the marine services business. The outlook may be revised to Positive if ASMPL is able to report sustained growth in revenues and profit margins amid the slow demand conditions prevailing in the shipping industry and efficiently manage its working capital requirements. The outlook may be revised to Negative if the company's revenues and profitability decline, or any delay in recovery of receivables and high inventory levels weakens the liquidity profile.

Key rating drivers

Credit strengths

Promoters established experience in marine service business – ASMPL was established in 1905 by the Moloobhoy family. The operations of the company are managed by the Moloobhoy family, who collectively have an experience of over a decade in the marine service industry. Extensive experience of the promoters has helped the company to establish its presence in the industry and develop strong ties with its customers over the years, leading to repeat orders.

Reputed customer and supplier bases; established business relationships and tie ups with various suppliers and distributors ensure adequate demand - ASMPL is a distributor for several reputed international marine equipment manufacturers. ASMPL's customer base comprises various Indian and international shipping lines, shipyards, ports, etc, with whom the company has been associated with for more than a decade. ASMPL has also developed established ties with various international marine electronic and safety equipment OEMs over the years, which ensure adequate demand.

Credit challenges

Financial profile characterised by modest scale of operations limiting economies of scale and moderate profitability – The operating income of ASMPL remains modest and has reported an operating income of Rs. 37.86 crore in FY2018. Lower sales volume due to the slowdown in the shipping industry has impacted the topline growth. Tough competition faced by the company from other players coupled with slowdown in the shipping industry has limited its pricing flexibility, which has kept the profit margins under pressure. Operating profit margins have remained moderate in the range of 8-11% in the past three years.

Stretched working capital cycle owing to high debtor and inventory levels – ASMPL is a distributor for several international marine equipment manufacturers. Since the lead time for importing the products is long and extends up to 60 days, the company generally maintains a ready inventory of most of its products, leading to high inventory levels. ASMPL extends credit of 30-90 days to international shipping companies and credit of 90-120 days to Government undertakings, which coupled with the high inventory levels leads to a stretched working capital cycle as depicted by a NWC/OI of 36% as on March 31, 2018.

Industry characterised by strong competition from unorganised players - ASMPL faces competition from several players in the marine services industry, which limits its pricing flexibility. Nevertheless, the company has an established presence in the industry and has developed strong ties with its customers over the years, leading to repeat orders that mitigate the competition risk to an extent.

Susceptibility of operations to the cyclicality of the shipping industry - The company's operations remain vulnerable to the cyclicality of the shipping industry. The global shipping industry has been facing several challenges, chiefly the low cargo rates and overcapacity of container ships. The slowdown in the industry has impacted ASMPL's operations as evident in the decline in its operating income by ~17% during FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

AS Moloobhoy Private Limited was initially established as the partnership firm, AS Moloobhoy & Sons, in 1905. It was converted into a private limited company in January 2014. The operations of the company are managed by the Moloobhoy family, who collectively have an experience of over a decade in the marine services industry. ASMPL distributes and provides services for marine safety and electronic equipment. The company's registered office is in Mumbai, with branches in Chennai, Kolkata, Vishakhapatnam (Andhra Pradesh), Kochi (Kerala), Gandhidham (Gujarat), Goa, Mundra (Gujarat) and Port Blair.

ASMPL has two group companies, AS Moloobhoy & Sons Pvt. Ltd. and Poseidon Holding Pvt. Ltd. Poseidon Holding is the ultimate holding company of the AS Moloobhoy Group. It has a 100% stake in AS Moloobhoy & Sons Pvt. Ltd., which has a 100% stake in ASMPL. ASMPL also has a subsidiary, Marine Services LLC, in Dubai, which was set up in FY2016 for broadening the company's geographical reach.

In FY2018, ASMPL reported a profit before tax of Rs. 3.28 crore on an operating income (OI) of Rs. 37.86 crore on a provisional basis, over a net profit of Rs. 1.00 crore on an OI of Rs. 35.51 crore in the previous year.

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	35.51	37.86
PAT (Rs. crore)	1.00	3.28*
OPBDIT/OI (%)	7.90%	11.34%
RoCE (%)	7.15%	11.77%
Total Debt/TNW (times)	1.28	0.87
Total Debt/OPBDIT (times)	6.02	3.36
Interest Coverage (times)	4.02	44.36

Source: Company Data, ICRA research

**Profit Before Tax*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug-18	Date & Rating in FY2018 Apr-17	Date & Rating in FY2016 Mar-16	Date & Rating in FY2015 Jan-15
1	Cash Credit	Long Term	0.00	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
2	Letter of credit	Short Term	7.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
3	Letter of Guarantee	Long Term	(7.00)*	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
4	Unallocated limits	Short Term	11.00	-	[ICRA]BB (Stable) [ICRA]A4+	[ICRA]BB (Stable) [ICRA]A4+	[ICRA]BB (Stable) [ICRA]A4+	[ICRA]BB- (Stable) [ICRA]A4

*Sub-limits within the Letter of Credit limit of Rs. 7.00 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
NA	Letter of credit	NA	NA	NA	7.00	[ICRA]A4+
NA	Letter of Guarantee	NA	NA	NA	(7.00)*	[ICRA]A4+
NA	Unallocated limits	NA	NA	NA	11.00	[ICRA]BB(Stable) [ICRA]A4+

***Sub-limits within the Letter of Credit limit of Rs. 7.00 crore**

Source: ASMPL

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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.

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