November 27, 2019

Celestial Aqua Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (US$ million)	Rating Action
Long-term fund based limit	10.00	[ICRA]B+(Stable); Assigned
Total	**10.00**	

**Instrument details are provided in Annexure*

Rationale

The assigned rating is constrained by the working capital intensive nature of Celestial Aqua Limited's (CAL) operations emanating from high receivable days. Consequently, CAL's reliance on creditors for funding its working capital requirements has remained high. The rating further considers its exposure to high customer and asset concentration risks as the company's cash flows are solely dependent on a single customer and the revenues are dependent on the only barge owned by CAL. ICRA further notes the vulnerability of the company's operations to the crude oil industry, international maritime laws and changes in regulatory environment of various nations.

However, the rating, favourably factors in the extensive track record of CAL's promoters in the marine services industry and the company's healthy profitability level and low debt levels, resulting in strong coverage ratios. The rating draws comfort from the constant flow of revenues as the barge is employed for 365 days a year.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that CAL will continue to benefit from the extensive track record of its promoters in the shipping industry.

Key rating drivers and their description

Credit strengths

Established track record of promoters in marine services like barges, deep sea diving – CAL is a part of the Vasuda Group and was incorporated in 2013 by Mr. Vikram Naik and his son, Mr. Praman Naik. Mr. Vikram Naik is the founder of the Vasuda Group and is a retired Lieutenant commander of the Indian Navy with 30 years of experience in this line of business. He is a qualified deep-sea diver. Mr. Praman Naik is involved in the Group's business since 2004.

Barge employed for 365 days a year ensures constant flow of revenues – The company has entered into a contract with its Group company, Golden Creative Assets Limited (GCAL) for management of the vessel, Ocean 240. In turn, GCAL has chartered out the vessel to Smit Lamnalco Onshore Services Limited (charterer) on a fixed charter rate per day basis. It has been receiving the payment towards the charter on a regular basis from February 2016.

Financial profile characterised by healthy profitability and coverage ratios – CAL's financial profile is marked by high profitability with an operating profit margin and net profit margin at 85.00% and 47.90%, respectively, in FY2019 (71.60% and 20.69% in FY2018). Due to its high profitability and low debt, the coverage indicators are comfortable with a gearing of 0.62 times and NCA/Total debt ratio of 39% times in FY2019 (0.62 times and 23%, respectively, in FY2018).

Credit challenges

Working capital intensive nature of operations due to high debtors; working capital subjected to creditor funding – CAL's operations are working capital intensive in nature, as reflected by a NWC/OI[1] ratio of 48% in FY2019. The receivables have remained high over the years and it increased significantly in FY2019 to AED[2] 18.20 million from AED 7.97 million. The company's working capital cycle has been subjected to creditor funding with creditors worth AED 11.24 million outstanding as on March 31, 2019.

High asset concentration risk; dependence on a single customer resulting in customer concentration – The entire revenue of CAL comes from a single customer, Smit Lamnalco Onshore Services Limited, which has taken the entire vessel on lease. In near term, the customer concentration is expected to remain at similar level as the long-term contract is likely to be maintained till February 2021. The company's 100% revenue is dependent upon the charter received from the Ocean 240 vessel.

However, ICRA notes that the company has a firm contract in place with the charterer, which includes compensation for early termination clause. Moreover, CAL has a demonstrated track record of receiving timely payment from the charterer.

Operations vulnerable to international maritime laws; revenues exposed to crude oil industry with barge being used for E&P[3] companies – The vessel, Ocean 240 is employed in the oil exploration business, off the coast of Iraq. The operations of the vessel are subjected to stringent marine laws, which differ from country to country. The ship is a sensitive commodity, which goes through numerous certifications. For a minor issue, the ship may not be allowed to move for days, resulting in business loss. As the barge is used mostly for exploration and production of oil and gas, the charter rates are susceptible to the dynamics of the international crude oil industry such as demand-supply scenario, any potential crisis in oil-producing countries, trade wars, etc.

Liquidity position: Stretched

CAL's liquidity profile remained stretched owing to the high receivables from its Group company, GCAL. The working capital requirement was partially supported by creditor funding. It has annual repayment obligations of AED 4.82 million, till FY2024. The timely extension of contract, along with timely receipt of payments, will be crucial to build the cash accruals required for these repayments. ICRA notes that the term loan repayments are quarterly and CAL deposits a fixed sum per month in a debt service reserve account (DSRA), from which the bank debits the repayment, every quarter.

Rating sensitivities

Positive triggers – ICRA could upgrade CAL's rating if there is an improvement in its working capital position, along with the renewal of contract with the charterer at remunerative rates.

Negative triggers – Negative pressure on the ratings could arise if there is further stretch in working capital or a non-renewal of the contract with the charterer, impacting its business operations.

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[1] *Net Working Capital (NWC)/Operating Income (OI)*

[2] *Arab Emirates Dirham (AED)*

[3] *Exploration & Production of oil*

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	Standalone

About the company

Incorporated in 2013, CAL is a vessel-owning company located in British Virgin Islands (BVI). It owns an accommodation cum crane barge Ocean 240 (also called OC 240) and it has entered into a chartered party agreement (CPA) with its Group company, GCAL for its rent. The company is a part of the Vasuda Group, which is involved in marine-related services such as barges, deep sea diving and fabrication of ships amongst others.

CAL recorded a net profit of AED 7.24 million on an operating income (OI) of AED 15.12 million in FY2019 (provisional numbers).

Key financial indicators

	FY2018 Audited	FY2019 Provisional
Operating Income	16.00	15.12
PAT	3.31	7.24
OPBDITA/ OI (%)	71.60%	85.00%
RoCE (%)	8.95%	10.56%
Total Debt/ TNW (times)	0.62	0.49
Total Debt/ OPBDITA (times)	2.77	2.23
Interest Coverage (times)	2.85	7.53
DSCR	1.33	1.97

Amounts in AED million
OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed; TNW: Tangible Net Worth
Source: Financial statements of CAL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating November 27, 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Foreign Currency Term	Long-term	10.00	6.56	[ICRA]B+(Stable)	-	-	-

Amount in US$ million

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	Current Rating and Outlook
-	FCTL	March 2016	6.13%	March 2024	10.00	[ICRA]B+(Stable)

Amount in US$ million
Source: Celestial Aqua Limited

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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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For more information, visit www.icra.in

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