

January 30, 2017

San Marine

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	9.00	[ICRA]BB (Stable) / Upgraded from [ICRA]BB- (Stable)
Total	9.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating assigned to the Rs. 9.00 crore¹ fund based limits of San Marine (SM)[†] to [ICRA]BB (pronounced ICRA double B) from [ICRA]BB- (pronounced ICRA double B minus). The outlook on the long term rating is stable.

Rationale

The rating upgrade favourably factors in the improvement in the operating profitability to 17% in FY2016 owing to higher share of revenue derived from providing off-shore services; prepayment of existing term loan by Rs. 2.10 crore in April 2016; and healthy coverage metrics with interest coverage ratio of 6.50 times and NCA/Total debt of 106% in FY2016. The rating continues to factor in the vast experience of the promoter in oil and gas offshore drilling industry; and low counterparty credit risk with company catering to reputed companies involved in oil and gas exploration. ICRA also notes that the Indian cabotage law provides protection to the domestically registered tugs for domestic offshore/port operations, and the demand prospects for anchor handling tugs remain favourable on the back of large scale of investment in the ports and offshore oil & gas sector. The rating is, however, constrained by expected decline in revenues in FY2017 due to low order book of Rs. 28.57 crore as on December 31, 2016 (0.48 times FY2016 revenues); susceptibility of revenues to vessel operational days; and high geographic concentration risk with operations limited to Kakinada port and Krishna Godavari basin region. The rating is further constrained by the high supplier and customer concentration risk over the past three years; high working capital intensity of operations as reflected by ~90% of the working capital limit utilization over the past 12 months due to higher credit period offered to with large customers; and risks associated with partnership nature of the firm as witnessed by the significant capital withdrawals during FY2016.

Going forward, the ability of the company to maintain profitability levels and manage its working capital requirements will be the key rating sensitivities from credit perspective.

Key rating drivers

Credit Strengths

- Long experience of the promoters in the off-shore exploration industry
- Low counter party credit risk as the customer base comprises large and reputed companies in the sector
- Cabotage law provides protection for Indian coastal offshore supply vessels/ harbor tugs by reserving the support services for domestic offshore/port operations to domestic fleet
- Improvement in operating profitability to 17% for FY2016 owing to higher revenue derived from providing offshore services and comfortable coverage indicators with interest coverage ratio of 6.50 times and NCA/Total debt of 106% in FY2016

¹ 100 lakh = 1 crore = 10 million

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

Credit Weakness

- High geographic concentration risk as the entire firm's revenues are derived from its facilities at the Kakinada sea port alone
- Low order book position of Rs. 28.57 crore (0.48 times FY2016 revenues) as on December 31, 2016 provides limited revenue visibility
- High supplier and customer concentration risk over the past three years
- Limited bargaining power with end customers, especially with offshore exploration companies owing to which higher credit period is offered
- Revenue of the firm is susceptible to vessel operational days because of the high fixed cost nature of operations which can also impact the margins
- Risk inherent in partnership nature of the firm

Description of key rating drivers highlighted above:

The promoter of San Marine (SM), Mr. Sheikh Ahmed Alisha, has more than two decades of experience in the oil and gas exploration space. He was earlier a partner in M/s/ Atlas Marine which was involved in similar line of business and later set up SM in 2012. The firm provides towing, escorting services and other associated crew services with its fleet of barges and tugs, based at Kakinada port, for various clientele involved in oil and gas exploration in the Krishna Godavari basin. Over the past two years, the firm's operations have substantially scaled up with revenues increasing from Rs. 11.54 crore in FY2014 to Rs. 59.62 crore in FY2016. Further, the operating profit levels improved substantially from 2.84% in FY2014 to 17.33% in FY2016. Till FY2014 the firm was engaged in trading of High Flash High Speed Diesel (HFHSD). With availability of vessels with SM, the firm is able to fulfil safety norms of vessels, certified crew members etc. resulting in high margins for San Marine. The Indian Cabotage Law states that only Indian flagged vessels or vessels chartered by an Indian citizen or company, operating under a licence granted by the Director General of Shipping (Director General), can carry cargo from one Indian port to another Indian port which ensures that there is lower threat from global operators. The demand for tugs is expected to remain high in the near to medium term on the back of upcoming new ports and/or expansion of existing ports and large scale investments in the offshore oil and gas sector.

The firm's customer concentration risk is high with top-3 customers accounting for more than 70% of the total sales over the past 3 years. However, the customers vary each year depending on the orders secured by them from large companies involved in oil drilling and exploration. The firm also has high supplier concentration risk with most of the purchases are HFHSD fuel purchases made from Oil Marketing Companies (OMCs). The order book position of the firm as on December 31, 2016 is small at Rs. 28.57 crore (0.48 times FY2016 revenues) providing limited revenue visibility. The revenues of the firm are also susceptible to vessel operational days, availability and weather conditions as the chartering rates are fixed for the number of operational days. The industry is highly fragmented with large number of small players with 1-2 tugs operating in this segment, consequent to which there is intense competition hence cost competitiveness and providing all solutions is the key requirement. Further, most of the customers are large players and their ability to negotiate is far superior to the tug/ barge owners owing to which the credit period needed to be offered is higher.

Analytical approach: Not applicable

Links to applicable Criteria:

Corporate Credit Rating - A Note on Methodology

About the Company:

Founded in 2012 as a partnership firm, San Marine (SM) is into the business of providing support services viz. storage, repair, maintenance and related support services to off shore rig companies operating in the Krishna Godavari Gas basin (KG basin). The Managing Partner, Mr. Sheikh Ahmed Alisha, has more than two decades of experience in Off shore Oil & Gas industry. He was the partner of M/s Atlas Marine which was involved in oil and gas exploration activities in KG Basin.

Recent Results

As per audited financial results for FY2016, the firm reported a net profit of Rs. 5.79 crore on a turnover of Rs. 59.62 crore as against a net profit of Rs. 5.84 crore on a turnover of Rs. 48.80 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				Jan 2017	Nov 2015	NA	NA
1	Term Loan	Long Term	9.00	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	NA	NA

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loan	-	-	December 2020	9.00	[ICRA]BB (Stable)

Source: San Marine

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