

October 29, 2020

Atlantic Global Shipping Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term Loan	21.16	[ICRA]BB (Stable); Assigned
Fund based- Cash Credit	8.00	[ICRA]BB (Stable); Assigned
Fund based- Overdraft	2.00	[ICRA]BB (Stable); Assigned
Non-fund based- Bank Guarantee	1.00	[ICRA]A4+; Assigned
Unallocated	2.84	[ICRA]BB (Stable) / [ICRA]A4+; Assigned
Total	35.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings reflect the wide range of port agency services offered by Atlantic Global Shipping Private Limited (ASPL), along with the high geographical diversification as the company is registered with all the Indian ports and handles over 50% of the tanker traffic at the Indian ports. The ratings draw comfort from the extensive experience of its promoters spanning more than three decades and the Sunrich Group in the port agency services industry.

The ratings are, however, constrained by the company's moderate scale of operations with Rs. 176.6 crore of gross revenue including the agency expenditure registered in FY2020 (provisional), which encumbers its competitive position. However, being the flagship company of the well-recognised Sunrich Group with Group companies involved in providing services in the shipping and logistics space, ASPL remains relatively well placed. The ratings factor in its fluctuating profitability during the past three years, which is vulnerable to the intense competition due to the highly fragmented nature of industry with presence of several organised and unorganised port service providers in the country. ICRA notes the company's leveraged capital structure with gearing of 2.3 times and Total Outside Liabilities (TOL) / Total Net Worth (TNW) of 11.6 times as on March 31, 2020 (provisional) owing to high dependence on external debt and a relatively modest net worth base. The ratings remain constrained by the business being exposed to the economic cycles, import and export cycle in India, which depends on the macro-economic conditions such as exchange rate fluctuations, changes in duty structure and Government policies.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that ASPL will maintain its sales momentum in the full year as depicted in H1 FY2021, along with benefits derived from its vast track record of operations and established position of the Sunrich Group.

Key rating drivers and their description

Credit strengths

Integrated agency service provider offering varied services from berthing to departure of a vessel – ASPL, as the flagship company of Sunrich Group, is an integrated agency service provider offering a range of services under one

umbrella from berthing to departure of a vessel including custom clearance, custom house agent, technical, legal, travel and other related services and acts as a general agent / owner's protective agents / chartered agents.

High geographical diversification as ASPL is registered with all Indian ports – The company is registered with all the Indian ports. With presence all over India through 35 offices across the country, the geographical concentration risk is low. The company receives most of its revenue from Maharashtra (Mumbai port and Jawaharlal Nehru Port) and Gujarat (Kandla, Sikka, Mundra, Veraval, Khambhat, Dahej, etc). Other major ports from where the company generates considerable revenue are Mangalore, Mormugao and Cochin on the west coast and Chennai, Visakhapatnam, Paradip and Kolkata on the east coast. It handles over 50% of the tanker traffic at the Indian ports.

Extensive experience of the Group in port service agency industry – The company's promoters Mr. Shabbir Fida Hussain Rangwala, Mr. Abbas Fida Hussain Barodawala and Mr. Ronak Shetty have more than three decades of experience in port service agency. ASPL, being the flagship company of the Sunrich Group, also benefits from the established name of the Group, which ensures repeat customers.

Credit challenges

Moderate scale of operations and volatile profitability during period under study – ASPL has a moderate scale of operations with a gross revenue including the agency expenditure of Rs. 176.6 crore in FY2020 (Rs. 143.8 crore in FY2019), with net revenue ranging within ~Rs. 40-50 crore during the past three years. The moderate scale of operations encumbers its competitive position and restricts the pricing power as reflected by muted operating profitability of 3.8% in FY2020 (3.3% in FY2019). High interest cost further limits the net profitability, which stood at 1.3% in FY2020 (1.0% in FY2019).

Highly leveraged capital structure and high total outside liabilities owing to high dependence on external debt and a relatively modest net worth base – The company's total debt increased substantially to Rs. 32.1 crore as on March 31, 2020 from Rs. 16.2 crore as on March 31, 2019 as it availed Rs. 15.9-crore term loan for capex and Rs. 5.0-crore loan against property to support its operations in FY2020. ASPL availed Covid line of credit of Rs. 3.0 crore in the current year. High debt with moderate net worth base (Rs. 14.1 crore in FY2020) resulted in leveraged capital structure with increased gearing of 2.3 times (1.4 times in FY2019). Moreover, the TOL / TNW remained high at 11.6 times as on March 31, 2020 due to high outstanding payables and high advances from customers, besides high reliance on external debt to fund its capex and working capital requirements.

Susceptibility of revenues to economic cycles and variations in export import trade – The company's revenue growth remains susceptible to the global economic slowdown and the changes in the Government's regulations and policies on export-import trade. ICRA notes that ASPL's revenue was impacted severely in April and May 2020, due to the pandemic-induced lockdown when most of the businesses were shut down. The company reported a 51% decline in revenues in 2M FY2021 compared to the corresponding period in the previous fiscal. However, the revenue increased from mid May and it booked Rs. 89.4 crore revenue in H1 FY2021 against Rs. 87.6 crore in the corresponding period in the previous year, reporting a growth of 2%.

Intense competition in port service agency industry – The intense competition in the port agency service industry due to the presence of several organised and unorganised agents together with new entrants exerts pressure on the company's revenue and profitability. However, the established relationship of the promoters with the customers and various port authorities and the well-recognised Sunrich Group status mitigates this risk to some extent.

Liquidity position: Adequate

ASPL's liquidity is **adequate** with positive cash flow from operations, supported by free cash and cash equivalent of Rs. 6.5 crore and undrawn working capital limits of Rs. 2.3 crore as on September 30, 2020. Further, Rs. 3.0-crore Covid line of credit aids support to the liquidity. The working capital requirements are adequately supported by significant advances from customers and creditors funding. Despite the considerable external term loans outstanding as on September 30, 2020 (Rs. 24.5 crore), moratorium sought and long tenure of the term loans are expected to ease the repayment burden in the near term.

Rating sensitivities

Positive triggers – ICRA is likely to upgrade ASPL's ratings if there is a consistent revenue growth while improving the profitability indicators, resulting in an improvement in the overall liquidity position.

Negative triggers – Lower-than-expected sales along with lower profitability adversely affecting the company's liquidity, coupled with any unanticipated debt-funded capex resulting in a moderation in debt coverage indicators or any further stretch in working capital cycle will put negative pressure on ASPL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The assigned ratings are based on the standalone financial statements of ASPL.

About the company

Incorporated in 1985, ASPL is the flagship company of the Sunrich Group. It is involved in port agency and logistical services for vessels coming to Indian ports or leaving from the Indian ports. The company provides assistance for all services, from berthing to departure of a vessel. It is registered with all the Indian ports. ASPL is also an ISO 9001:2008 certified port agency in India by Det Norske Veritas and accredited by the RVA.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 2.3 crore on an operating income (OI) of Rs. 176.6 crore compared to a net profit of Rs. 1.5 crore on an OI of Rs. 143.8 crore in the previous year.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	143.8	176.6
PAT (Rs. crore)	1.5	2.3
OPBDIT/OI (%)	3.3%	3.8%
PAT/OI (%)	1.0%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	12.5	11.6
Total Debt/OPBDIT (times)	3.4	4.8
Interest Coverage (times)	2.7	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					29-Oct-2020			
1	Term Loan	Long Term	21.16	21.16	[ICRA]BB (Stable)	-	-	-
2	Cash Credit	Long Term	8.00	-	[ICRA]BB (Stable)	-	-	-
3	Overdraft	Long Term	2.00	-	[ICRA]BB (Stable)	-	-	-
4	Bank Guarantee	Short Term	1.00	-	[ICRA]A4+	-	-	-
5	Unallocated	Long Term / Short Term	2.84	-	[ICRA]BB (Stable) / [ICRA]A4+	-	-	-

Amount in Rs. 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jan-2020	9.50%	Jun-2030	16.05	[ICRA]BB (Stable)
NA	Term Loan 2	Nov-2019	10.65%	Apr-2032	5.11	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	8.00	[ICRA]BB (Stable)
NA	Overdraft	NA	NA	NA	2.00	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	2.84	[ICRA]BB (Stable) / [ICRA]A4+

Source: Atlantic Global Shipping Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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