Rating Rationale

Brickwork Ratings assigns 'BWR BBB+ / (Stable)' Rating for the Bank Loan Facilities of USD 7.13 million of Adel Shipping & Logistics Limited

BLR Issue Rating: BWR BBB+	Outlook : Stable

Brickwork Ratings (BWR) has assigned the Rating[1] **BWR BBB+ (Outlook: Stable)** (Pronounced BWR Triple B Plus) for the Bank loan rating (External Commercial Borrowings) for an outstanding amount of USD 7.13 million (USD Seven Million One Hundred Thirty Thousand) as of February 28, 2013 of Adel Shipping & Logistics Limited ("ASLL" or "the Company").

The rating factors, inter alia, experienced and professionally qualified management, growth in revenues, healthy operating margins and long term agreement with the Company's single client. However, the rating is constrained by the Company's small scale of operations, high debt levels and low net profit margins.

Background

Adel Shipping & Logistics Limited (ASLL), incorporated on 8th February 2010, is a wholly owned subsidiary of Adel Shipping Holding Limited (ASHL). In FY11, the Company acquired two harbor tugs that have since been chartered to Essar Bulk Terminal Limited (EBTL) under long-term contracts.

ASLL had availed a long term loan facility amounting to USD 9.49 million from Axis Bank Ltd for part-funding the purchase of two harbor tugs. Out of the said amount, an amount of USD 7.13 million is outstanding as of February 28, 2013.

The Board of Directors

The Company is managed by experienced and qualified professionals led by Mr. A.R. Ramakrishnan, the Director of ASLL. Mr. Ramakrishnan is the Managing Director of Essar Shipping Limited. He has been with Essar Group since 1992. Prior to joining Essar Group, he was associated with Godrej for 12 years. He is also a Director on the Board of various Indian

[1] ***Please refer to www.brickworkratings.com for definition of the Rating***

public limited companies. Mr. V. Ashok, also a Director of the Company, has been with the Essar Group since 1997 and is currently working as Chief Financial Officer handling the treasury, working capital and long-term finance portfolios of the Group. He is also a Director on the Board of various Indian public limited companies.

Operations

ASLL has two harbor tugs that have been chartered to EBTL for 10 years since the time they were purchased in FY11. EBTL is an Essar Group company engaged in the business of providing dry bulk ports and terminal services at Hazira. The charter rate between ASLL and EBTL is fixed as per agreement between both the parties at USD 4,500 per day for each tug and charterer, i.e. EBTL, has to pay equivalent Indian Rupees at the TT selling rate of State Bank of India on the date of invoice. Invoice is raised on EBTL monthly in advance.

Financial Performance

The Company posted net sales of ₹ 15.78 Crores in FY12 as compared to ₹ 13.11 Crores in FY11 displaying y-o-y growth of about 20%. Increase in revenues is mainly due to increase in currency exchange rates during the year. The total expenditure has reduced from ₹ 3.11 Crores in FY11 to ₹ 2.68 Crores in FY12 on account of lower operating expenses[2], administrative expenses and employee expenses which translated into higher EBITDA for the year FY12 at ₹ 13.08 Crores compared to ₹ 10.00 Crores for FY11. Operating margin is healthy at 76.3% for FY11 and 82.9% for FY12. However, owing to higher depreciation expense, the Company has posted a loss of ₹ 1.53 Crores for FY12 as compared to a loss of ₹ 1.67 Crores in the previous year. Net profit is low in the initial years as the Company has adopted depreciation as per Written Down Value method as against Straight Line method. Consequently, depreciation charged is higher in the initial years of operation leading to lower profitability. As per the financial performance ended December 31, 2012, ASLL had achieved turnover of ₹ 13.49 Crores and Net Profit of ₹ 41 lacs. The revenues are expected to exhibit restrained growth due to fixed contract terms unless the Company implements plans to expand operations.

[2] ***Operating expenses of the Company includes repairs and maintenance expenses, fuels and lubricants, shipping fees, spares and stores, etc.***

ASLL has total outstanding debt of approx. ₹ 40.78 Crores as of March 2012. Tangible Net worth stood at ₹ 14.71 Crores as of March 2012. This has reflected in the debt-equity ratio which is very high at 2.77 times in FY12 as compared to 2.44 times in FY11. The Company's Interest coverage and debt service coverage ratios are at comfortable levels. Sundry debtors have increased to ₹ 10.53 Crores in FY12 from ₹ 5.62 Crores in FY11 mainly due to increase in dollar rates during the year leading to higher invoice amounts. Consequently, the current ratio increased from 1.38 times in FY11 to 2.40 times in FY12. Key financials of ASLL are as per Annexures I, II and III respectively.

Rating Outlook

The company is managed by well experienced and qualified directors. Also it has long term contract of 10 years for the use of tugs with its only customer EBTL. The Company's ability to expand its operations scale, manage the receivables, and diversify its client base will be key to enhance profitability going forward.

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Key Financials of Adel Shipping and Logistics Ltd (ASLL)

Annexure I: Balance Sheet of ASLL (₹ Crores)

Particulars	9 Mth ended Dec 31, 2012	FY12	FY11
EQUITY AND LIABILITIES			
Net Worth	**15.12**	**14.71**	**16.25**
Share Capital	1.92	1.92	1.92
Reserves & Surplus	13.20	12.79	14.33
Non-current liabilities	**35.87**	**36.96**	**38.81**
Long-term borrowings	35.02	36.12	35.75
Deferred tax liability (net)	0.84	0.84	-0.83
Current Liabilities	**6.91**	**5.26**	**5.36**
Trade payables	1.54	0.38	0.49
Other current liabilities	5.37	4.88	4.88
TOTAL EQUITY AND LIABILITIES	**57.90**	**56.94**	**56.54**
ASSETS			
Non-current assets	**40.87**	**44.31**	**49.11**
Fixed assets	39.80	43.46	48.81
Tangible assets	39.80	43.46	48.81
Long-term loans and advances	1.07	0.85	0.30
Current assets	**17.02**	**12.61**	**7.42**
Sundry debtors	16.02	10.53	5.62
Cash and bank balances	0.97	1.99	1.71
Other current assets	0.00	0.01	-
Loans and advances	0.03	0.10	0.09
TOTAL ASSETS	**57.89**	**56.71**	**56.54**

Annexure II: Profit & Loss Statement of ASLL (₹ Crores)

Particulars	9 Mth ended Dec 31, 2012	FY12	FY11
Revenue from Operations	13.49	15.78	13.11
Total Revenue	**13.49**	**15.78**	**13.11**
Expenses			
Operating expenses	2.66	0.70	0.93
Employee Expenses[3]	1.43	1.88	1.93
Administrative expenses	0.18	0.12	0.25
Total Expenditure	**4.26**	**2.70**	**3.11**
PBIDTA	**9.23**	**13.08**	**10.00**
Finance Cost	1.95	2.22	2.24
Add: Other Income	0.01	0.03	-
PBDT	7.29	10.89	7.76
Depreciation & Amortization	6.88	10.72	10.26
PBT	0.41	0.18	-2.50
Taxes	-	1.70	-0.83
PAT	**0.41**	**-1.53**	**-1.67**

Annexure III: Key Ratios of ASLL

Ratios	9 Mth ended Dec 31, 2012	FY12	FY11
Debt –Equity (times)	2.65	2.77	2.44
Interest Coverage (times)	4.74	5.90	4.47
DSCR (times)	1.31	1.47	1.77
Tangible Net Worth (₹ Crore)	15.12	14.71	16.25
Profitability Margin (%)	3.1%	-9.7%	-12.7%
ROCE (%)	4.2%	4.3%	-0.6%
Net Cash Accruals to total debt	0.18	0.23	0.22
Current Ratio (times)	2.46	2.40	1.38

[3] ***Employee Benefit Expenses + Crew Manning Charges***