

Rating Rationale

July 05, 2023 | Mumbai

Seamec Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.293 Crore (Enhanced from Rs.105 Crore)
Long Term Rating	CRISIL A/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Seamec Limited (Seamec) to **'Positive'** from 'Stable' while reaffirming its rating at **'CRISIL A'**.

The positive outlook reflects CRISIL Ratings' expectation that Seamec's business profile will improve in the near term owing to the replacement of few aged vessels carried out over the past two fiscals resulting in reduction of redeployment risk. Seamec will sustain its established market position in providing multi support vessels (MSVs) on charter-hire basis under long-term contracts to offshore exploration and production (E&P) players in India. The company has a healthy financial risk profile too, with a net cash position maintained as on March 31, 2023. These strengths are partially offset by the moderate scale of operations, exposure to client concentration risks and susceptibility of operating performance to fluctuations in crude oil prices, which are inherently volatile.

CRISIL Ratings understands from the company's management that the proposal for restructuring its business with the parent, HAL Offshore Ltd (HAL; CRISIL A/Positive/CRISIL A1) has been put on hold and there are no restructuring plans under consideration as of now.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Seamec and its subsidiaries, as these entities are in a similar line of business with strong operational, managerial, and financial linkages. Further, to factor the strategic importance of Seamec to its parent HAL, CRISIL Ratings has applied its parent notch-up framework to arrive at the final rating.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strategic importance to HAL with established market presence in the vessel hire business**

Seamec along with HAL, has established its market position in providing MSVs on a charter hire basis to offshore E&P players in India, namely Oil & Natural Gas Corporation Ltd. (ONGC). These services continue to be of importance to the E&P players, given the increased focus on enhancing output from the domestic oilfields and their own ageing assets. While there could be continued requirement for the existing vessels owned, future growth opportunities could however be limited.

Seamec currently contributes to over 30% of consolidated revenues of HAL. It is likely to remain critical to the HAL, given the parent's focus on strengthening its presence in the oil and gas segment. Considering its adequate liquidity Seamec maintains, Seamec is unlikely to require any financial support from HAL.

- **Comfortable operating performance**

The long-term contracts spanning 3 to 5 years executed to charter the MSVs, offer a medium-term visibility on the revenue expected from this segment. Healthy gross margin of 50-60% is earned on the fleet. While the company has secured long-term contracts for the MSVs it owns, it deploys the diving support vessel (DSV), barge and bulk carriers on a short-term/spot basis. Both HAL and Seamec are in the process of replacing their aged vessels, which would then reduce the redeployment risk associated with these vessels. Seamec has purchased two MSVs to replace one of its aged vessels over the past two fiscals and plans to replace the remaining three aged vessels over the medium term. Revenue and operating margin are, however, susceptible to redeployment risk associated with vessels that are deployed on a spot basis.

- **Healthy financial risk profile**

Financial risk profile of Seamec is driven by comfortable gearing and adequate liquidity. The company had maintained cash and equivalents of Rs 186 crore against outstanding debt of Rs 137 crore as on March 31, 2023, and was thus, in a net cash position. Financial metrics are comfortable, with gearing of 0.17 time as on March 31, 2023, and interest coverage ratio of 21.53 times for fiscal 2023.

Even though Seamec is in the process of replacing its aged fleet, liquidity available in the books should be sufficient to fund this capex towards purchase of new vessels. The company may also avail external funding only to ensure that adequate liquidity is available to tide through cyclicalities in business operations and avail of any attractive vessel acquisition opportunity, which can be deployed on long-term contracts in the domestic market.

Weaknesses:

- **Susceptibility of operating performance to redeployment risk, owing to ageing fleet of vessels**

Seamec owns five vessels, three bulk carriers and one barge, amongst which three vessels are more than 35 years old. This increases the redeployment risk of these vessels as they may not meet the bidding criteria of E&P players such as ONGC. To mitigate this risk, Seamec is in the process of replacing such vessels with a younger fleet. Timely replacement within the budgeted cost is a key rating monitorable.

- **Exposure to client and segmental concentration risk**

MSV services are provided to offshore oilfields in India, for which E&P rights are majorly owned by ONGC. This exposes Seamec to client concentration risk. However, the company does benefit from having a strong client in terms of receiving timely payments. Also, since revenue is entirely dependent on offshore E&P activities, the company remains exposed to segmental concentration risk.

- **Susceptibility of charter rates to inherent volatility in crude oil prices**

Profitability and cash flow in the offshore business depend on charter rates, which are influenced by offshore and deep-water expenditure by oil and gas majors. Offshore and deep-water block investments, which are larger than those in onshore blocks, are highly sensitive to crude oil prices. In the past, slowdown in global oil and gas E&P capex has led to decline in demand for offshore equipment, resulting in a sharp fall in charter rates for offshore vessels and rigs.

However, charter rates of vessels deployed by Seamec have been stable in the past, despite fluctuations in crude oil prices, given the continuous production activities taken up by domestic E&P players. Furthermore, Seamec has deployed two vessels on long-term five-year contracts at fixed charter rates.

Liquidity: Strong

Seamec maintained a cash and equivalents of Rs 186 crore as on March 31, 2023. The company is expected to generate cash accruals of around Rs 160-210 crore over fiscals 2024 to 2026. The annual accruals generated as well as the surplus liquidity maintained, would be sufficient to meet its near-term annual repayment obligations of Rs 25-50 crores for fiscals 2024 and 2025. Considering adequate liquidity maintained, the company has low dependence on working capital funding.

Outlook: Positive

CRISIL Ratings believes the business risk profile of Seamec will improve with reduction of redeployment risk for its vessels, supported by its established market position in the vessel hire business, while maintaining a healthy financial risk profile.

Rating Sensitivity factors

Upward factors

- Near term visibility on replacement of remaining aged fleet and double-digit revenue growth while maintaining operating margins
- Improvement in credit risk profile of the parent HAL, by one or more notches

Downward factors

- Sustained delay in deploying vessels or fall in MSV charter rates below \$50,000, thereby weakening cash accruals
- Larger-than-expected capex, thereby weakening the debt protection metrics or liquidity

About the Company

Seamec (a part of the MM Agarwal group) was incorporated in 1986. It operates in two distinct verticals of the shipping business - offshore support vessels & services and bulk carrier charter business. The company owns five vessels and one barge in the offshore support business wherein the vessels are deployed in the domestic and international market. Through its international subsidiary - Seamec International FZE and its joint venture - Seamate Shipping FZC, the company has also diversified its presence in the bulk carrier charter business wherein it owns one dry bulk carrier and two cargo vessels.

About the Parent

Incorporated in 1996, as part of the MM Agarwal group, HAL is an end-to-end solutions provider of underwater and EPC services to the Indian oil and gas industry. Over the years, it has developed a diversified portfolio, which includes turnkey projects involving sub-sea and marine services and EPC contracts. Services offered by HAL are certified by independent agencies such as the American Bureau of Shipping (ABS), DNV, LR as per requirements of the client.

HAL holds a 70.1% stake in Seamec, with the balance held by the public.

Key Financial Indicators (CRISIL Ratings – adjusted)

Particulars (As on / for the period ended March 31)	Unit	2023*	2022
Revenue from operations	Rs crore	437	350
Profit after tax (PAT)	Rs crore	34	84
PAT margin	%	7.68	23.94
Adjusted debt / adjusted networkth	Times	0.17	0.16
Interest coverage	Times	21.53	27.23

*based on abridged financials reported by the company

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	75	NA	CRISIL A/Positive
NA	Term Loan	NA	NA	Aug-26	68	NA	CRISIL A/Positive
NA	Term Loan	NA	NA	Jun-28	150	NA	CRISIL A/Positive

*Interchangeable with letter of credit (LC) limit of Rs 10 crore, cash credit (CC) limit of Rs 1 crore and working capital demand loan (WC DL) of Rs 1 crore

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Seamec International FZE	Full	Strong operational, managerial and financial linkages
Seamate Shipping FZC	Full	Strong operational, managerial and financial linkages
Seamec UK Investments Ltd	Full	Strong operational, managerial and financial linkages
Seamec Nirman Infra Ltd	Full	Strong operational, managerial and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	218.0	CRISIL A/Positive		--	06-04-22	CRISIL A/Stable	14-12-21	CRISIL A/Watch Developing		--	Withdrawn
					--	14-03-22	CRISIL A/Watch Developing		--		--	--
Non-Fund Based Facilities	LT	75.0	CRISIL A/Positive		--	06-04-22	CRISIL A/Stable	14-12-21	CRISIL A/Watch Developing		--	Withdrawn
					--	14-03-22	CRISIL A/Watch Developing		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee*	75	HDFC Bank Limited	CRISIL A/Positive
Term Loan	30	HDFC Bank Limited	CRISIL A/Positive
Term Loan	38	HDFC Bank Limited	CRISIL A/Positive
Term Loan	150	HDFC Bank Limited	CRISIL A/Positive

*Interchangeable with letter of credit (LC) limit of Rs 10 crore, cash credit (CC) limit of Rs 1 crore and working capital demand loan (WC DL) of Rs 1 crore

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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