Adani Bunkering Private Limited

December 05, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term / Short term Bank Facilities	450.00	**CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	Reaffirmed
Total Facilities	**450.00 (Rupees Four Hundred and Fifty Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from Adani Bunkering Private Limited's (ABPL) parentage, its operational synergies with the Adani group companies that have established port infrastructure resulting in lower start-up capital cost for ABPL which also acts as a major entry barrier in the bunkering business, increasing presence of Adani group at Indian ports; and stable financial performance of the company during FY18 (refers to the period from April 1 to March 31) upon adherence to commodity hedging policies.

The ratings, however, continue to be constrained by ABPL's high operating risk in the form of elevated credit, commodity price volatility and foreign exchange fluctuation risks, working capital intensive nature of its operations, disadvantageous marine fuel price rates at Indian ports compared to neighboring international ports and moderation in its sales volume post implementation of the Goods & Services Tax (GST).

ABPL's ability to increase its scale of operations along with improvement in its profitability in the backdrop of volatility in marine fuel prices and international competition on the face of prevailing disadvantageous price differential for marine fuel at Indian ports while effectively managing the operating risks; along-with outcome of ABPL's ongoing litigation with the sales tax department and its impact on its related large contingent liability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of the Adani group with experienced management

ABPL is a part of the Adani group and is a step-down subsidiary of Adani Enterprises Limited (AEL; rated CARE A; Stable / CARE A+ (SO); Stable / CARE A1), which is the flagship company of the group. AEL, on a standalone basis, has mainly coal trading, coal Mine Developer and Operator (MDO) and power trading businesses, whereas, Adani group as a whole has evolved in to a diversified conglomerate and is engaged in various businesses across a range of sectors. ABPL is being managed by a professional and experienced management team, having knowledgeable personnel with respect to various aspects of the oil and gas industry in India. Post exit of the Chemoil group from the erstwhile Joint Venture (JV), ABPL has retained most of the experienced employees for its uninterrupted business operations.

Port infrastructure support from Adani Group

ABPL is mainly engaged in selling of marine fuel oil and gas oil to ships calling on any port in Gulf of Kutch region (mainly Mundra, Sikka and Kandla ports). ABPL uses the port infrastructure of the Adani group companies including, storage terminals and pipeline network resulting in lower start-up capital cost, which is a major entry barrier in bunkering business. Further, the barges which are required for catering to ships calling at ports other than Mundra are also taken on lease. Consequently, in the ordinary course of business, ABPL has received customer advances from these Adani group companies.

Strict adherence to hedging policy for mitigating commodity price volatility risk along with natural hedge against foreign exchange rate fluctuations

As articulated by ABPL's management, for the last three years ABPL has adequate commodity risk management policy in place whereby it almost hedges its outstanding commodity exposure to mitigate the commodity price fluctuations. This along with relatively stable prices of fuel oil has led to ABPL earning Gross Cash Accruals (GCA) of Rs.11.42 crore, Rs.14.40 crore and Rs.16.90 crore during FY16, FY17 and FY18 respectively. Continued adherence to prudent inventory hedging policy by ABPL shall remain a very critical rating sensitivity.

Further, the business model of ABPL is marked by bulk import of fuel and its export which exposes it to exchange rate fluctuations; however, on a going concern, there is natural hedge to a large extent since both imports and exports are denominated in USD.

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[1] *Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

Improvement in profitability during FY18; albeit decline in sales volume
During FY18, the sales volume of ABPL declined by ~15% due to imposition of GST rate of 18% on bunkering fuel which resulted in high fuel cost for ships at Indian ports compared to ports at Sri Lanka and South-East Asia. However, the GST rate was subsequently reduced from 18% to 5% from October 2017 which led to improvement in its scale of operations from Q3FY18 onwards. Even after decline in sales volume in FY18 due to GST implementation effect, the PAT margin improved marginally during FY18 to 2.47% compared to 2.04% in FY17 mainly due to reduction in fixed costs, effective sourcing of bunker fuel at reduced cost resulting in better contribution margins.

Liquidity analysis
ABPL has been mostly utilizing non-fund based limits in the form of letter of credit (LC) for procurement of fuel oil. Also, as per need, it utilizes Pre-Shipment Credit in Foreign Currency (PCFC) for payment of fuel oil at the expiry of LC period if there is pending realization from its debtors. It has sanctioned working capital limits of Rs.375 crore from various lenders. The maximum working capital limit utilization of ABPL for the trailing 12 months ended September 2018 had been moderate at around 70%.

Key Rating Weaknesses
Moderate capital structure and significant Inter Corporate Deposits (ICDs) extended to group companies
During FY16, ABPL had extended interest-bearing ICDs of Rs.456.84 crore to Adani Power Limited (APL; rated CARE BB+; Stable / CARE A4+). These ICDs are repayable on demand; however it has subsequently increased to Rs.467.40 crore and Rs.539.82 crore as on March 31, 2017 and March 31, 2018 respectively.
ABPL does not have any long-term debt whereas short-term borrowings are mainly for working capital purpose as it provides a clean credit period of 30 days to its customers. The working capital borrowings of ABPL as on March 31, 2018 have reduced as compared to March 31, 2017 due to lower working capital requirement which led to improvement in the overall gearing as on even date. However, the overall gearing of ABPL continues to remain at moderate level as ABPL availed unsecured short term bank overdraft of Rs.125.03 crore as on March 31, 2018. However, its debt level has declined from Rs.221.86 crore as on March 31, 2018 to Rs.12.55 crore as on September 30, 2018, due to lower working capital borrowings and repayment of unsecured short term bank overdraft in H1FY19 upon reduction in the ICDs given to APL during H1FY19, resulting in improvement in overall gearing.

High credit risk and exposure to volatile commodity prices
A very big risk that ABPL faces is the credit risk as it provides clean credit period of 30 days to its customers. However, providing clean credit period of 30 days is a norm in the marine fuel business. As articulated by the company management, most of the bunker suppliers enjoy maritime claim against the vessel owners as per Admiralty Laws which allows them to get the vessel arrested in case of payment default.
The main commodity for ABPL includes Marine Fuel Oil and Marine Gas Oil [High Speed Diesel (HSD)], the prices of which have shown sharp fluctuations on the back of volatility in the global markets which exposes ABPL to commodity price fluctuation risk. Accordingly, in case ABPL does not hedge its commodity price risk, sharp fluctuations in fuel oil and gas oil prices could result in losses as it had happened in the past whereby APBL incurred cash losses in FY13 and FY15.

Adverse price differential at Indian ports for marine fuel acts as a major deterrent for bunkering business
Indian ports have the potential to emerge as a leading bunkering destination for the international shipping trade passing through the Arabian Sea and Indian Ocean region. However, the major factor for the tardy growth of the bunkering market in India is the adverse price factor which is around 20% higher in India due to higher ocean freight and/or indirect tax implication on domestic purchase. ABPL experiences a price differential of around 15%-20% over Singapore and Fujairah prices, which is a major deterrent for growth in the scale of operations. The sales volume of bunkering industry in India plummeted from July 2017 onwards upon introduction of GST of 18% on bunker fuel, which resulted in high fuel cost for ships at Indian ports compared to ports at Sri Lanka and South East Asia. However, the GST rate has been subsequently revised from 18% to 5% from October 2017 which may arrest the slide in volumes.

Working capital intensive nature of operations
ABPL maintains inventory of fuel oils for average period of 30-40 days, has collection period of around one month due to clean credit period and average payment period to creditors is around 10-15 days leading to operating cycle of about two months resulting in higher working capital intensity of its operations.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]

[Criteria for Short Term Instruments]
[Rating Methodology - Wholesale Trading]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company
Incorporated in May 2008, Adani Bunkering Private Limited (ABPL), is a wholly owned subsidiary of Adani Global Pte Limited (AGPTE) which is a step down subsidiary of Adani Enterprises Limited (AEL). Previously ABPL was a 49:51 joint venture (JV) between Chemoil Energy Limited, Hongkong and Adani group. Chemoil group exited the JV in September 2015 and since then ABPL has become a 100% step-down subsidiary of AEL. ABPL is mainly engaged in the business of supplying marine fuel oil and gas oil to ships calling on any port in the Gulf of Kutch region (mainly Mundra, Sikka and Kandla ports). ABPL is a physical bunker supplier in Gujarat ports as well as other Indian ports with operations being handled from Mundra port.

Brief Financials – ABPL (Standalone) (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	841.38	860.79
PBILDT	63.73	60.09
PAT	17.17	21.25
Overall gearing (times)	2.89	2.02
Interest coverage (times)	1.38	1.48

A: Audited
During H1FY19, as per provisional results, ABPL earned a PBILDT of Rs.26.20 crore on a total operating income of Rs.419.10 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Facilities

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based-LT/ST	-	-	-	450.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based-LT/ST	LT/ST	450.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (04-Jan-18)	1)CARE BBB+; Stable / CARE A2 (30-Jan-17)	1)CARE BBB+ / CARE A2 (25-Sep-15)

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