July 07, 2022

Apeejay Shipping Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based Limits – Cash Credit	Rs. 55.00 crore	Rs. 55.00 crore	[ICRA]A reaffirmed; Outlook revised to Positive from Stable
Fund-based Limits – Term Loan/ WCTL	Rs. 332.97 crore	Rs. 332.97 crore	[ICRA]A reaffirmed; Outlook revised to Positive from Stable
Fund-based Limits – Term Loan	$ 13.29 million	$ 13.29 million	[ICRA]A reaffirmed; Outlook revised to Positive from Stable
Fund-based Limits – Short Term Loans	Rs. 40.00 crore	Rs. 40.00 crore	[ICRA]A2+ reaffirmed
Non-Fund based Limits – Long Term/Short Term	Rs. 2.00 crore	Rs. 2.00 crore	[ICRA]A/[ICRA]A2+ reaffirmed; Outlook revised to Positive from Stable
Total	**Rs. 429.97 crore + $ 13.29 million**	**Rs. 429.97 crore + $ 13.29 million**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term outlook of Apeejay Shipping Limited (ASL) factors in the significant increase in charter rates in the current year, which is expected to keep business returns and debt coverage indicators healthy. ICRA estimates the Net Debt / OPBDITA to be ~2.2 times, RoCE to be ~14.3% and Interest Coverage to be ~5.3 times in FY2022. While the charter rates are likely to witness some moderation going forward, the current demand-supply dynamics, given the relatively lower order book for the global bulk shipping industry, is likely to limit the extent of decline and keep rates materially higher than the historical level (last 10 years). While revising the outlook, ICRA has also noted the tie-up of debt by Apeejay Surrendra Park Hotels Limited (ASPHL, rated at [ICRA] BBB with a Stable outlook and [ICRA]A3+), which will be primarily used to pre-pay the scheduled repayment of term loans over the next two years, thus easing the liquidity position of the Group.

The ratings continue to favourably factor in ASL's established track record in the dry bulk shipping business for more than four decades and healthy relationships with Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and Poompuhar Shipping Corporation (PSC) in the coastal coal trade. The ratings, however, also factor in the cyclicality inherent in the shipping business, which is further accentuated by ASL's segmental concentration in the dry bulk business as well as the company's relatively smaller scale of operations. Also, large exposure, including loans and advances, to Apeejay Tea Panama (ATP, the erstwhile holding company of Typhoo operations in the UK), from which ASL gets sub-optimal returns, continues to impact the overall RoCE of the company. As the Group exited the Typhoo business in FY2022, recovery of such loans is unlikely going forward, leading to a likely provisioning / write-off of the same, which would have an adverse impact on the financial profile of the company. Notwithstanding the same, healthy charter rates over the medium term are likely to keep cash flows comfortable relative to its debt service obligation.

Key rating drivers and their description

Credit strengths

Significant improvement in charter rates to considerably improve financial performance in the current fiscal; favourable outlook on dry bulk shipping – Current renewals of charter rates have been at significantly higher levels than the recent history. As some contracts are valid till the end of this financial year / beginning of the next financial year, there is some degree of revenue visibility. Thus, ASL's financial performance, which has improved sharply in FY2022 (as per provisional results), is expected to witness a further material improvement in FY2023. ICRA expects the Interest Coverage and the Net Debt to OPBDITA to improve to ~12.8 times, and ~0.2 times, respectively in FY2023 from ~5.3 times, and ~2.2 times, respectively in FY2022 (estimated).

Vast experience in the dry bulk shipping industry with established market position in coastal coal trade – ASL has an extensive operating history, spanning more than four decades. The company has a fleet of nine vessels, after having purchased three second-hand ships in FY2018. ASL operates entirely in the dry-bulk segment, with coal accounting for a significant portion of the total goods carried by the fleet. Two ships are under Surrendra Overseas Panama (SOP) and SOP2 (before the refinancing, the two ships were under the entity called SOP; however, as a part of the refinancing exercise, the two ships are now on the books of two separate entities) While these two ships mostly operate in international waters, the bulk of the seven ships under ASL are largely involved in the coastal trade, primarily of coal in India for TANGEDCO as well as PSC, which at present transports coal for NTPC Tamil Nadu Energy Company Limited (NTECL). ASL has a healthy relationship with PSC and TANGEDCO in the coastal coal trade, where the charter rates have been historically at a premium to the market rates. The two ships under SOP and SOP2 are also operating for TANGEDCO at present.

Moderate LTV provides considerable financial flexibility – Total Long-term loans to Market Value of the ships stands at around 48% at present. This provides considerable financial flexibility.

Established relationship with banks provides financial flexibility – ASL has established relationships with domestic and international banks with a demonstrated ability to refinance debt at attractive terms in the past, which provides comfort.

Credit challenges

Inherent cyclicality in the shipping business and segmental concentration risk – While the shipping industry has witnessed considerable volatility in the past, ASL's exposure to such volatility is heightened by the segmental concentration, with the dry bulk segment accounting for its entire operating income. Besides, the company has a relatively smaller scale of operations, notwithstanding the recent increase in its fleet size. Shipping rates, in the current year, have witnessed a considerable increase on the back of improved sea borne trade of bulk commodities and limited availability of ships, leading to a tightness in demand-supply situation. While some moderation in charter rates is expected going forward, limited additional supply of ships is likely to support the rates.

Overall leverage of the Group to remain under pressure notwithstanding expected improvement in FY2023; large exposure of ASL to Group entity, ATP – Over the years, stress in performance of ATL as well as Typhoo operations (in the UK) led to an increase in debt of the Group as the losses were largely funded by debt. With the Group exiting the Typhoo operations in the previous year, there were large devolvement of loans, worth ~ Rs. 150 crore, which were backed by corporate guarantees given by ATL. Consequently, external (outside Group) loans on the books of ATL is estimated to have increased to ~ Rs. 650 crore as of end-FY2022. ATL is in the process of divesting its tea estates to reduce the quantum of debt. While some progress has been achieved, timely sell-off of the balance estates would be a key factor in determining the overall financial position of the Group, including ASL. The company has a large exposure to ATP in the form of investments, loans and advances. Given the exit of Typhoo business (of which ATP was the holding company), investments worth around Rs. 420 crore may be written off as recovery of the same is unlikely. Such a large write-off would have an adverse impact on the financial profile of ASL.

Exposed to high client concentration risk – With four of the seven ships on the books of standalone ASL, and two ships on the books of SOP and SOP2 now deployed with TANGEDCO/PSC, the client concentration risk is high. As the coastal business has a higher working capital requirement, higher number of ships deployed in that trade increases the overall working capital requirements of the company. However, ICRA notes that the logistical services provided by ASL remain critical for smooth and continued operations of the thermal power plants based in Tamil Nadu, thus providing comfort. In addition, given the scope of the global trade of bulk commodities, ASL has the option of deploying higher number of ships in the sea borne trade of coal and grains, thus reducing the client concentration risks.

Liquidity position: Adequate

The liquidity of the company is adequate. Redemption of pledged securities to pay off the corporate guarantee towards ATP generated some excess, which was used to fund the working capital requirements. However, overall reliance on banks to fund the working capital requirements continued to remain moderately high as of end-March 2022. The situation is, however, likely to improve, going forward, as the company starts getting the benefits of increased charter rates.

Rating Sensitivities

Positive factors – Sustenance of healthy charter rates, leading to a comfortable capital structure and debt coverage indicators of the company, along with deleveraging at the Group level may lead to ratings upgrade.

Negative factors – Pressure on ASL's ratings may arise on weakening of credit metrics and return indicators owing to a substantial decline in charter rates. Besides, any large support to weaker Group entities may also lead to a negative rating action.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Shipping Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	While arriving at the ratings, ICRA has factored in the operational and financial risk profiles of Apeejay Shipping Limited along with its overseas shipping subsidiaries. In addition, the likely financial support to the other non-shipping subsidiaries has also been factored in. The details are given in Annexure - II.

About the company

Incorporated in 1948, ASL (previously known as Surrendra Overseas Ltd.) is involved in the bulk shipping business. At present, the company has a fleet of nine vessels, including two under its wholly-owned subsidiaries, SOP and SOP2, with a combined capacity of 0.59 million DWT. ASL is a part of the Kolkata-based Apeejay Surrendra Group, which has interests in tea, hospitality, retail, and real estate, in addition to shipping.

Key financial indicators (audited)

ASL	Standalone		Consolidated	
	FY2020	FY2021	FY2020	FY2021
Operating income (Rs. crore)	208.8	140.6	262.0	186.3
PAT (Rs. crore)	47.5	2.6	-11.4	-31.0
OPBDIT/OI	47.1%	27.5%	33.9%	24.6%
PAT/OI	22.8%	1.8%	-4.4%	-16.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.8	1.5	1.7
Total debt/OPBDIT (times)	5.0	15.4	8.6	18.4
Interest coverage (times)	2.1	0.8	1.2	0.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount rated	Amount outstanding as of Mar 31, 2022	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					Jul 07, 2022	Nov 9, 2021	May 3, 2021	Jul 27, 2020	Aug 30, 2019	Jul 29, 2019
1	Cash Credit	Long Term	Rs. 55.00 crore	Rs. 52.85 crore	**[ICRA]A (Positive)**	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
2	Term Loan/ WCTL	Long Term	Rs. 332.97 crore	Rs. 441.80 crore	**[ICRA]A (Positive)**	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
3	Fund-based Limits – Term Loan	Long Term	$ 13.29 million		**[ICRA]A (Positive)**	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
4	Non-Fund based Limits	Long Term	-	-	-	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
5	Fund-based Limits – Short Term Loans	Short Term	Rs. 40.00 crore	Rs. 8.00 crore	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
6	Non-Fund based Limits	Long Term/ Short Term	Rs. 2.00 crore	-	**[ICRA]A (Positive)/ [ICRA]A2+**	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
7	Commercial Paper	Short Term	-	-	-	-	-	-	-	[ICRA]A1+ withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Fund-based – Working Capital	Simple
Long-term/ Short-term Non-Fund Based – Working Capital	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated	Current Rating and Outlook
NA	Cash Credit – I	-	-	-	Rs. 20.00 crore	[ICRA]A (Positive)
NA	Cash Credit – II	-	-	-	Rs. 30.00 crore	[ICRA]A (Positive)
NA	Cash Credit – III	-	-	-	Rs. 5.00 crore	[ICRA]A (Positive)
NA	ECLGS – I	FY2021	-	FY2025	Rs. 31.43 crore	[ICRA]A (Positive)
NA	ECLGS – II	FY2021	-	FY2025	Rs. 8.94 crore	[ICRA]A (Positive)
NA	ECLGS – III	FY2021	-	FY2025	Rs. 12.60 crore	[ICRA]A (Positive)
NA	Term Loan – I	FY2018	-	FY2028	Rs. 136.00 crore	[ICRA]A (Positive)
NA	Term Loan – II	FY2018	-	FY2028	Rs. 54.00 crore	[ICRA]A (Positive)
NA	Term Loan – III	FY2018	-	FY2028	Rs. 90.00 crore	[ICRA]A (Positive)
NA	Term Loan in FC	FY2016	-	FY2026	$ 5.04 million	[ICRA]A (Positive)
NA	Term Loan in FC (Proposed)	NA	-	NA	$ 8.25 million	[ICRA]A (Positive)
NA	Short-term Loan	-	-	-	Rs. 15.00 crore	[ICRA]A2+
NA	Short-term Loan (Proposed)	NA	-	NA	Rs. 25.00 crore	[ICRA]A2+
NA	Non-fund based Limits	-	-	-	Rs. 2.00 crore	[ICRA]A (Positive)/ [ICRA]A2+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Surrendra Overseas (Panama) Inc	100.00%	Full Consolidation
SOP2	100.00%	Full Consolidation
Surrendra Overseas (Singapore) Pte Limited	100.00%	Full Consolidation
Bengal Shipyard Limited	93.75%	Limited Consolidation
Apeejay Infra-Logistics Private Limited (AILPL)	99.00%	Limited Consolidation
Apeejay Logistics Park Private Limited (wos of AILPL)	99.00%	Limited Consolidation
Oceanic Shipyard Limited	93.75%	Limited Consolidation

Source: *ASL Annual Report FY2021*

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