April 06, 2023

Apeejay Shipping Limited: Ratings upgraded; outlook revised to Stable

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+; upgraded from [ICRA]A and Outlook revised to Stable from Positive
Fund-based Limits – Term Loan/WCTL	Rs. 332.97 crore	Rs. 332.97 crore	[ICRA]A+; upgraded from [ICRA]A and Outlook revised to Stable from Positive
Fund-based Limits – Term Loan	$ 13.29 million	$ 13.29 million	[ICRA]A+; upgraded from [ICRA]A and Outlook revised to Stable from Positive
Fund-based Limits – Short Term Loans	Rs. 40.00 crore	Rs. 40.00 crore	[ICRA]A1; upgraded from [ICRA]A2+
Non-Fund based Limits – Long Term/Short Term	Rs. 2.00 crore	Rs. 2.00 crore	[ICRA]A+/ [ICRA]A1; upgraded from [ICRA]A/ [ICRA]A2+ and Outlook revised to Stable from Positive
Total	**Rs. 429.97 crore + $ 13.29 million**	**Rs. 429.97 crore + $ 13.29 million**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the ratings factors in the significant improvement in debt coverage indicators of the company in FY2023, which is likely to sustain, notwithstanding the moderation in charter rates in FY2024. ICRA estimates the company's Debt / OPBDITA to have improved to ~0.9 times in FY2023 from ~2.2 times in FY2022 and the interest coverage to ~9.3 times in FY2023 from ~5.4 times in FY2022. While the global charter rates have moderated materially from the high level witnessed in mid-CY2022, which would have an impact on Apeejay Shipping Limited's (ASL) earnings in FY2024, the overall financial risk profile is likely to remain healthy as the company has used its strong cash flows to pay off a part of its debt in FY2023. In addition, a low loan-to-value (LTV) of its fleet at ~40% provides substantial financial flexibility. While revising the ratings, ICRA has also noted the rapid deleveraging in the Group through sale of its tea estates, and recent refinance of the loans on the books of Apeejay Intralogistics Private Limited (AILPL, ASL's subsidiary), which have no repayment obligation till Q1 FY2025. While the fortunes of the global dry bulk shipping industry are prone to economic cycles, the order book for the global bulk shipping industry stands at less than 7.5% of the current fleet, a 30-year low. A limited supply pipeline is likely to keep the supply-demand situation balanced, thus providing support to the rates in times of a volatile global economic outlook. The outlook on the domestic coastal shipping remains supportive given the likely demand for coal by thermal power stations located in the southern part of the country.

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. ICRA also notes that some of the ships in the company's fleet is of considerable vintage. In addition, large exposure, including loans and advances, to Apeejay Tea Panama (ATP, the erstwhile holding company of Typhoo operations in the UK), continues to impact the overall RoCE of the company. The recoverability of the loan remains uncertain as of now as the Group exited the Typhoo business in FY2022. In case of any provisioning / write-off of the same, ASL's cash flow will not be impacted. While moderation in cash accruals is likely in FY2024, given the softening of shipping rates, the cash flows of the company are still likely to remain healthy, relative to its debt service requirements and its strong liquidity.

Key rating drivers and their description

Credit strengths

Significant rise in charter rates is estimated to have positively impacted financial performance in FY2023; notwithstanding moderation in performance in FY2024, financial performance likely to remain significantly better than historical trend – In ASL's history, FY2023 has been one of the best years , notwithstanding the decline in rates from the second half of the year. While recent renewal rates are materially lower than the peaks witnessed in the recent past, the same would still be significantly higher than the historical levels. The Baltic Dry Index (BDI) levels have already started showing an uptrend in the latter half of Q4 FY2023 after easing of Covid-related lockdowns in China and conclusion of Chinese New Year related holidays. Thus, ASL's financial performance, which had improved sharply in FY2022 with the operating income (OI) registering a growth of ~140% over FY2021, is expected to witness a further material improvement in FY2023. ICRA expects the interest coverage and the Net Debt to OPBDITA to improve to ~9.3 times and ~0.9 times, respectively in FY2023 from ~2.1 times, and ~5.4 times, respectively in FY2022. However, ICRA expects the OI to register a decline in FY2024, owing to the moderation in the charter rates.

Balanced outlook on dry bulk shipping given limited supply expectations over next 24 months – While the outlook on the global economy remains uncertain, limited expected supply of bulk vessels is likely to keep the demand supply balanced, going forward. The current global order book for bulk ships is almost at a 30-year low at ~7.5% of the existing fleet as on December 31, 2022. However, effective supply is estimated to grow lower than the estimated fleet addition in CY2023 and CY2024 due to lower speeds caused by compliance with Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) regulations. The outlook on the domestic coastal shipping also remains supportive given the likely demand for coal by thermal power stations located in the southern part of the country, particularly because summer temperatures are likely to soar this year.

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 five decades. The company has a fleet of nine vessels. 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. At present, the same 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.

Comfortable LTV provides considerable financial flexibility – The total long-term Loans to Market Value of the ships stands at around 40% 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.

Significant reduction in the overall leverage of the group, through sale of tea estates, thereby leading to an improvement in the overall financial profile of the group – Over the years, stress in performance of Apeejay Tea Limited (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. The Group exited the Typhoo operations in 2021, leading to large devolvement of loans, on the group. ATL has also sold off the majority of its gardens in FY2023 and significantly reduced its debt obligations. Consequently, the overall debt for the Group is estimated to have declined substantially in FY2023.

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 FY2023, 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.

Exposed to high client concentration risk, however, ASL serves as a critical element in the entire value chain of TANGEDCO – With six of the seven ships on the books of standalone ASL 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 logistics 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, reducing the client concentration risks.

Liquidity position: Strong

The liquidity of the company is strong. Healthy charter rates have led to significant improvement in profitability and cash flows of the company. The cash flow from operations remained positive in FY2022 and the same is expected to remain the same in FY2023 as well. The company has also refinanced a part of its debt with lower interest rates and an extended repayment schedule, resulting in lower repayment obligation in FY2023 and FY2024. The average utilisation of the fund-based limits stood at ~58% for the 11-months ending in February 2023.

Rating sensitivities

Positive factors – Sustenance of healthy charter rates, leading to a comfortable capital structure and debt coverage indicators of the company, along with further 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. Specific credit metrics that could lead to ratings downgrade include Total Debt/ OPBDITA (for consolidated shipping operations) of more than 1.5 times on a sustained basis.

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	Consolidated		Standalone	
	FY2021	FY2022	FY2021	FY2022
Operating income	186.4	433.2	140.7	313.6
PAT	-31.0	152.8	2.6	111.7
OPBDIT/OI	26.8%	61.9%	27.5%	61.6%
PAT/OI	-16.6%	35.3%	1.8%	35.6%
Total outside liabilities/Tangible net worth (times)	1.7	1.2	0.8	0.6
Total debt/OPBDIT (times)	16.9	2.7	15.4	2.6
Interest coverage (times)	0.7	4.4	0.7	4.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Apr 06, 2023	Jul 07, 2022	Nov 9, 2021	May 3, 2021	Jul 27, 2020
1	Cash Credit	Long term	Rs. 55.00 crore	Rs. 417.75 crore	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
2	Term Loan/WCTL	Long term	Rs. 332.97 crore		[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
3	Fund based limits – Term loan	Long term	$ 13.29 million		[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
4	Non-Fund based limits	Long term	-		-	-	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)
5	Fund based limits – Short term loan	Short term	Rs. 40.00 crore		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1
6	Non-Fund based limits	Long term/ Short term	Rs. 2.00 crore		[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits – Cash Credit	Simple
Fund-based Limits – Term Loan/WCTL	Simple
Fund-based Limits – Term Loan	Simple
Fund-based Limits – Short Term Loans	Simple
Non-Fund based Limits – Long Term/Short Term	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit I	-	-	-	Rs. 20.00 crores	[ICRA]A+ (Stable)
NA	Cash credit II	-	-	-	Rs. 30.00 crores	[ICRA]A+ (Stable)
NA	Cash credit III	-	-	-	Rs. 5.00 crores	[ICRA]A+ (Stable)
NA	ECLGS I	FY2021	-	FY2025	Rs. 31.43 crores	[ICRA]A+ (Stable)
NA	ECLGS II	FY2021	-	FY2025	Rs. 8.94 crores	[ICRA]A+ (Stable)
NA	ECLGS III	FY2021	-	FY2025	Rs. 12.60 crores	[ICRA]A+ (Stable)
NA	Term Loan I	FY2018	-	FY2028	Rs. 136.00 crores	[ICRA]A+ (Stable)
NA	Term Loan II	FY2018	-	FY2028	Rs. 54.00 crores	[ICRA]A+ (Stable)
NA	Term Loan III	FY2018	-	FY2028	Rs. 90.00 crores	[ICRA]A+ (Stable)
NA	Term loan in FC	FY2016	-	FY2026	$ 5.04 million	[ICRA]A+ (Stable)
NA	Term Loan in FC (Proposed)	NA	-	NA	$ 8.25 million	[ICRA]A+ (Stable)
NA	Short term loan	-	-	-	Rs. 15.00 crores	[ICRA]A1
NA	Short term loan (Proposed)	-	-	-	Rs. 25.00 crores	[ICRA]A1
NA	Non-Fund based limits	-	-	-	Rs. 2.00 crores	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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: Annual report

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Aman Mundhra
+91 33 7150 1123
aman.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches