

July 27, 2020

Apeejay Shipping Limited: Long-term rating reaffirmed at [ICRA]A+; Short-term rating downgraded to [ICRA]A1; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based- Bank Facilities	Rs. 35 crore	Rs. 35 crore	Reaffirmed at [ICRA]A+; outlook revised to Negative from Stable
Fund-based – Term Loans	Rs. 220 crore	Rs. 220 crore	Reaffirmed at [ICRA]A+; outlook revised to Negative from Stable
Fund-based – Term Loans	\$ 39.16 million	\$ 39.16 million	Reaffirmed at [ICRA]A+; outlook revised to Negative from Stable
Non-fund based	£ 18 million	£ 18 million	Reaffirmed at [ICRA]A+; outlook revised to Negative from Stable
Non-fund based	Rs. 2 crore	Rs. 2 crore	Reaffirmed at [ICRA]A+; outlook revised to Negative from Stable; ST rating downgraded to [ICRA]A1 from [ICRA]A1+
Fund-based – Short Term Loans	Rs. 40 crore	Rs. 40 crore	Downgraded to [ICRA]A1 from [ICRA]A1+

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in ICRA's expectation that the core operating profits of the consolidated entity, Apeejay Shipping Ltd. (ASL) are likely to remain low in FY2021 compared to FY2020 on the back of the entity's weaker-than-previously anticipated financial performance in FY2020. Lower operating profits along with continued high repayments will continue to keep the entity's overall credit metrics modest and is expected to remain out of line with its current credit ratings. In FY2020, low charter rates in Q4 FY2020 owing to Covid-19 pandemic, resulted in lower-than-expected revenue and core profits for the full year. Despite the full year charter rates in FY2020 being marginally higher as compared to previous fiscal, the dip in charter rates in Q4FY2020 primarily led to underperformance compared to earlier anticipated. Thus, in spite of the year-on-year (YoY) improvements, the return indicators and debt protection metrics remained modest, as reflected by an RoCE of ~5.0%, external debt/operating profits of 6.0 times and interest coverage of ~2.2 times estimated for the consolidated entity (significantly lower than ICRA's earlier estimates). At present, out of total nine ships of the company, three have been currently under time charter with Poompuhar Shipping Corporation (PSC), which are valid till Q3FY2021. The balance ships are deployed in international market on short-term contract basis. While ICRA notes that the renewal rates for few ships have improved in recent months based on buoyancy in Baltic Dry Index (BDI), in view of the uncertain global economic outlook amid ongoing Covid-19 pandemic, the company's ability to get favourable charter rates on ships deployed with PSC and on other ships deployed in international market going forward, would be critical for its profitability and cash accruals in the near term. However, on an absolute basis, the core operating profit in the ongoing fiscal is likely to remain lower than the previous year. In addition, notwithstanding the loan moratorium availed till August 2020 and few unencumbered liquid portfolio, high debt quantum along with sizeable interest and repayment obligations are likely to keep the overall debt coverage indicators and the company's liquidity profile modest in FY2021. In addition, contrary to earlier expectations, the Group's proposed deleveraging plans were delayed, as a result of which the overall debt quantum of the Group remained high. ICRA, however, notes that the Group as well as the company is under discussion with various lenders for refinancing its

debt obligations at better terms, which could provide a liquidity cushion, once finalised. Timely fruition of the same will remain a key rating sensitivity.

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 relationship with PSC in the coastal coal trade, where the charter rates have been historically at a premium to the market rates. However, high receivables from PSC increase the working capital requirement of the company to an extent. The ratings also factor in the cyclical nature inherent in the shipping business, which is further accentuated by ASL's segmental concentration in the dry bulk business. However, the recent announcement of Government of India (GoI) to not go for global tenders for contracts below Rs 200 crore, is likely to support the Indian Shipping Industry in the medium to long term. In addition, the company is a part of the Apeejay Surrendra Group and has healthy relationships with banks, which lend it significant financial flexibility. Also, its income from the investment portfolio adds stability to the cyclical cash flows from the core shipping business.

ASL has sought a moratorium on payments from one of its lenders as a part of the Covid-19 Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments for March, April, May 2020 and June 2020, were deferred by the company. However, as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not recognised this instance as a Default.

Key rating drivers and their description

Credit strengths

Vast experience in the dry bulk shipping industry with established market position in coastal coal trade – The company has an extensive operating history, spanning more than four decades. At present, it has a fleet of nine vessels, 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. While two ships under Surrendra Overseas Panama (SOP) operate in international waters, the bulk of the seven ships under ASL is involved in the coastal trade, primarily of coal in India. The charter rates remained favourable for the company in FY2019 and 9M FY2020. However, the adverse situation due to the Covid-19 pandemic impacted charter rates in Q4 FY2020 and the rates remained lower in Q1FY2021 as well, compared to previous year. While ICRA notes that the company has got higher renewal rates in the recent months based on buoyancy in Baltic Dry Index (BDI), in view of the uncertain global economic outlook amid ongoing Covid-19 pandemic, the company's ability to get favourable charter rates on ships deployed with PSC and on other ships deployed in international market going forward, would be critical for its profitability and cash accruals in the near term. ASL has healthy relationship with PSC in the coastal coal trade, where the charter rates have been historically at a premium to the market rates.

Financial flexibility on account of being a part of the Apeejay Group and healthy relationship with banks – ASL has a sizeable investment portfolio, which has given modest returns in the past and provides some stability to the volatile cash flows from ASL's core shipping operations. Established relationship with domestic banks and the demonstrated ability to refinance debt at attractive terms in the past also provide comfort.

Credit challenges

Weaker-than-anticipated consolidated financial performance in FY2020; uncertain global economic outlook amid Covid-19 pandemic– The performance of the consolidated entity in FY2020 is estimated to be weaker than anticipated previously. The subdued charter rates, primarily in Q4 FY2020, resulted in lower-than-expected revenue and core profits for the full year. The charter rates in Q1FY2021 also remained lower than the previous year. However, the renewal rates have improved in recent past with buoyancy in BDI. Nonetheless, the ability to get favourable charter rates going forward, would be critical for its profitability and cash accruals in the near term. However, on an absolute basis, the core operating profit is likely to be lower than the previous year.

Depressed returns on capital employed and coverage indicators – Despite the YoY improvement in profits estimated for FY2020, the return indicators and debt protection metrics continued to remain modest, as reflected by an RoCE of ~5.0%, external debt/operating profits of ~6.0 times and interest coverage of ~2.2 times estimated for the consolidated entity (significantly lower than ICRA's earlier estimates). In the current financial year, an expected decline in core profits along with high repayments in FY2021 will continue to keep the overall debt coverage indicators under pressure and liquidity position modest. ICRA, however, notes that the company is under discussion with various lenders for refinancing its debt obligations at better terms, which could provide liquidity cushion, once finalised. Timely fruition of the same will remain a key rating factor.

Inherent cyclicity 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, as well as the company's relatively small scale of operations, notwithstanding the recent increase in fleet size.

Liquidity position- Adequate

The liquidity of ASL is adequate given its positive fund flow from operations (FFO) in the past two years. While the FFO will continue to remain positive in FY2021, high debt repayment (notwithstanding the loan moratorium availed till August 2020) is likely to put pressure on the free cash flow position of the company. ICRA, however, notes that the company is under discussion with lenders for refinancing its debt obligations at better terms, which could provide liquidity cushion in the near term, once finalised.

Rating sensitivities

Positive triggers – Given the Negative outlook, an upgrade in the rating is unlikely in the near term. The outlook may be revised to Stable in case of a sustained period of improvement in returns and debt coverage indicators, led by better charter rates.

Negative triggers – Pressure on ASL's ratings may arise on further weakening of credit metrics and return indicators owing to weaker-than-expected charter rates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Shipping Industry
Parent/Group Support	ICRA notes that there is fungibility of cash flows within different businesses of the Group. However, ICRA does not expect any support for ASL.
Consolidation / Standalone	The ratings are based on the consolidated financials, which include subsidiaries as per Annexure 2

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 subsidiary, SOP, 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.

In FY2019, ASL recorded a loss after tax of Rs. 0.91 crore on an operating income of Rs. 258.70 crore compared to a loss after tax of Rs. 23.92 crore on an operating income of Rs. 155.28 crore in FY2018.

Key financial indicators (standalone and consolidated)

	Standalone			Consolidated ¹	
	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	55.70	105.52	199.30	155.28	258.70
PAT (Rs. crore)	-11.93	15.06	37.54	-23.92	-0.91
OPBDIT/OI (%)	-27.55%	26.16%	41.86%	24.88%	38.92%
RoCE (%)	1.01%	3.47%	6.38%	1.68%	4.96%
Total Debt/TNW (times)	0.31	0.54	0.61	1.13	1.29
Total Debt/OPBDIT (times)	-17.32	16.89	6.52	18.85	8.17
Interest coverage (times)	-0.80	1.24	1.91	0.98	1.63

Source: Annual reports of company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Includes Apeejay Shipping Standalone and other subsidiaries as per Annexure 2

Rating history for last three years

	Instrument	Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding (March 31, 2020)	Current Rating	FY2020		FY2019	FY2018
					27-July-2020	30-Aug-2019	29-July-2019	07-Jun-2018	21-Apr-2017
1	Cash Credit	Long-Term	Rs. 35 crore	NA	[ICRA]A+ Reaffirmed; outlook revised to Negative	[ICRA]A+ (Stable); downgraded	[ICRA]AA- (Stable); outstanding	[ICRA]AA- Reaffirmed; outlook revised to stable	[ICRA]AA- (Negative); Reaffirmed
2	Term Loan	Long-Term	Rs. 220 crore	225.98	[ICRA]A+ Reaffirmed; outlook revised to Negative	[ICRA]A+ (Stable); downgraded	[ICRA]AA- (Stable); outstanding	[ICRA]AA- Reaffirmed; outlook revised to stable	[ICRA]AA- (Negative); Reaffirmed
3.	Term Loan	Long-Term	\$ 39.16 million	\$22.80 million	[ICRA]A+ Reaffirmed; outlook revised to Negative	[ICRA]A+ (Stable); downgraded	[ICRA]AA- (Stable); outstanding	[ICRA]AA- Reaffirmed; outlook revised to stable	[ICRA]AA- (Negative); Reaffirmed
4	Non-fund-based facilities	Long-Term	£ 18 million	NA	[ICRA]A+ Reaffirmed; outlook revised to Negative	[ICRA]A+ (Stable); downgraded	[ICRA]AA- (Stable); outstanding	[ICRA]AA- Reaffirmed; outlook revised to stable	[ICRA]AA- (Negative); Reaffirmed
5	Non-fund-based facilities	Long-Term/ Short-Term	Rs. 2 crore	NA	[ICRA]A+ Reaffirmed; outlook revised to Negative; ST downgraded to [ICRA]A1	[ICRA]A+ (Stable); downgraded [ICRA]A1+; Reaffirmed	[ICRA]AA- (Stable)/ [ICRA]A1+; outstanding	[ICRA]AA-/ [ICRA]A1+ Reaffirmed; outlook revised to stable	[ICRA]AA- (Negative)/ [ICRA]A1+; Reaffirmed
6	Short-term Loan	Short-Term	Rs. 40 crore	NA	Downgraded to [ICRA]A1	[ICRA]A1+; Reaffirmed	[ICRA]A1+; outstanding	[ICRA]A1+; Reaffirmed	
7	Commercial Paper programme	Short-Term	-	NIL	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Reaffirmed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	Rs. 35.00 crore	[ICRA]A+ (Negative)
NA	Term Loan	August 2017	NA	FY2028	Rs. 220 crore	[ICRA]A+ (Negative)
NA	Term Loan	March 2016	NA	FY2026	\$ 39.16 million	[ICRA]A+ (Negative)
NA	Non-fund based facilities	NA	NA	NA	£ 18 million	[ICRA]A+ (Negative)
NA	Non-fund based facilities	NA	NA	NA	Rs. 2 crore	[ICRA]A+ (Negative)/ [ICRA] A1
NA	Short-term loans	Aug-2017	NA	Aug-2018	Rs. 20 crore	[ICRA]A1
NA	Short-term loans	Sep-2017	NA	Sep-2018	Rs. 20 crore	[ICRA]A1

Source: ASL

Annexure-2: List of entities considered for consolidated analysis

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

Source: ASL

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