June 26, 2023

Shreyas Shipping And Logistics Limited: [ICRA] A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	52.60	[ICRA] A- (Stable); assigned
Unallocated limits	7.40	[ICRA] A- (Stable); assigned
Total	**60.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the extensive experience and established position of Shreyas Shipping and Logistics Limited (SSLL) in the shipping business. Further, SSLL is part of the Transworld Group which has significant experience in the global shipping and logistics business. The rating also factors in the long-term framework chartering agreement (FCA) for majority of SSLL's vessels (11 out of 13) with Transworld Feeders Private Limited (TFPL), part of Unifeeder ISC FZCO (a DP World Group company), providing revenue visibility. The rating also draws comfort from the company's healthy financial risk profile, characterised by strong margins. ICRA further notes the presence of a debt service reserve account (DSRA), comprising one quarter's principal and interest payments and healthy unencumbered liquid investments, cash and cash equivalents, which support the company's liquidity position.

The rating, however, remains constrained by a moderate scale of operations and the exposure of revenues to charter hire rates. The revenues declined by ~6% to Rs. 483.8 crore from Rs. 513.6 crore owing to a fall in charter hire rates in H2 FY2023. The revenues are expected to decline in FY2024 as well owing to rationalisation of charter rates. Further, SSLL's operations are capital-intensive, which require debt-funded capex to replace the ageing vessels and are likely to keep the debt levels moderately elevated.

In March 2023, the company acquired three container vessels to replace three old vessels for ~Rs. 320 crore which was funded by 75% to 80% debt and the balance was from internal accruals. The debt-funded acquisition and rationalisation of charter rates are likely to moderate the debt coverage metrics. However, SSLL has adopted prudent risk management practices and is expected to maintain adequate cash & liquid reserves of ~Rs. 80-100 crore on a steady basis, going forward, in addition to the DSRA. The rating also factors in the vulnerability of the operating income to the inherent cyclicality in the shipping business, volatility in charter rates and regulatory changes.

ICRA also takes note of an announcement made by one of the shareholders and promoters, Transworld Holding Limited (THL), conveying its intention of acquiring all the equity shares of SSLL held by public shareholders. Consequent to the acquisition, SSLL will delist the equity shares from the BSE and the NSE. SSLL's board approved the proposed voluntary delisting proposal on May 24, 2023, subject to shareholders' consent. THL would fund the acquisition and there is unlikely to be any fund outflow from SSLL. Further, the delisting would not have any impact on the company's operations or its business strategies. Hence, the delisting is not expected to have any material impact on SSLL's credit profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that SSLL will continue to benefit from its established operational track record, favourable long-term chartering agreement and prudent risk management practices.

Key rating drivers and their description

Credit strengths

Extensive experience in shipping industry - The promoters of the company have more than four decades of experience in the ship owning and chartering business. SSLL is part of the Transworld Group, which offers a spectrum of shipping logistics services, including feeder (vessel-owning companies), coastal container shipping and logistics solutions.

Long-term chartering arrangement for majority of the vessels provides steady revenues - SSLL has a long-term framework chartering agreement with TFPL wherein 11 container vessels are chartered to TFPL under a long-term charter. Uni-feeder ISC FZCO (parent company of TFPL) has a stronger position in the global charter market and would benefit from the higher volumes handled by the vessels. Hence, the chartering agreement provides revenue visibility. Further, the cash flows would be steady over the medium term, driven by receipt of 50% of the payments upfront on a quarterly basis.

Healthy financial risk profile – The financial risk profile remains healthy with comfortable capital structure and moderate coverage indicators. The operating and net margins remained healthy at 50.9% and 40.7%, respectively, in FY2023. The operating margins are expected to remain healthy in the near to medium term. The capital structure was comfortable with gearing of 0.6 times as on March 31, 2023. SSLL maintains DSRA, comprising one quarter's principal and interest payments and healthy unencumbered liquid investments, cash, and cash equivalents.

The company has acquired three container vessels as a replacement of three old vessels in March 2023 for ~Rs. 320 crore, which was funded by 75% to 80% debt and the balance from internal accruals. The debt-funded acquisition and rationalisation of charter rates are likely to moderate the debt coverage metrics. However, SSLL has adopted prudent risk management practices and is expected to maintain adequate cash & liquid reserves of ~Rs. 80-100 crore on a steady basis, going forward, in addition to the DSRA.

Credit challenges

Moderate scale of operations – In FY2023, SSLL's revenue declined by 5.8% on a YoY basis to Rs. 483.8 crore from Rs. 513.6 crore in FY2022, driven by a decline in the charter hire rates in H2 FY2023. The revenues of the company are susceptible to the changes in charter hire rates which are linked to freight rates. The higher capacity vessels acquired in 2023 are likely to support the revenues, going forward.

Capital-intensive nature of operations – SSLL's operations are capital-intensive and rely on debt-funded capex to increase the fleet and replace the old vessels. A higher-than-anticipated debt-funded capex may put further pressure on the debt coverage indicators and will be monitored by ICRA.

Vulnerability of revenues to inherent cyclicality in shipping industry, charter rates and regulatory changes –SSLL's revenues remain vulnerable to the inherent cyclicality in the shipping industry and the volatility in the charter rates. The sector is also exposed to changes in domestic and international regulations. Any adverse changes in domestic regulatory policies or global regulatory norms, as imposed by the International Maritime Organisation, may impact the company's revenue growth and profitability, going forward.

Environment and Social Risks:

Environmental risks arising from greenhouse gas emissions, air pollutants and oil spills pose challenges to entities in the shipping industry, which may prompt companies to undertake clean-up activities and incur remediation costs. The industry is also exposed to a regulatory framework, which is expected to become more stringent over time and companies may need to incur investment to retrofit/upgrade or phase out vessels. The shipping sector is also exposed to moderate social risks related to human capital and health/other hazard of the crew living at sea. SSLL's vessels have been complaint with IMO's fuel regulations, and the entity has a demonstrated track record of running its operations in accordance with the applicable health, safety and environmental regulations.

Liquidity position: Adequate

SSLL's liquidity profile has remained adequate owing to positive cash flow from operations, unencumbered liquid investments and cash and cash equivalents of ~Rs. 93 crore as on March 31, 2023. The liquidity profile of the company is further strengthened by the presence of a DSRA of ~Rs. 56 crore to meet three months of debt obligations. SSLL has repayment obligations of Rs. 106 crore in FY2024 and Rs. 110-120 crore each in FY2025 and FY2026 for its existing term loans. In addition, SSLL has capex plans of Rs. 20 crore towards dry docking in FY2024 and ~Rs.140 crore each in FY2025 and FY2026 towards vessel acquisition and dry docking. ICRA expects the company's cash accruals, unencumbered liquid investments, cash and cash equivalents to be sufficient to meet its repayment obligations comfortably over the medium term. Also, SSLL has adopted prudent risk management practices and is expected to maintain an adequate cash reserve of ~Rs. 80-100 crore on a steady basis, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale-up in the company's operations and profitability with an increase in charter hire rates along with an improvement in the debt protection metrics. Specific credit metrics for an upgrade include total debt/OPBDITA of less than 2 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of substantial decrease in charter hire rates that would reduce the operating income and profitability and deteriorate the debt protection metrics. Specific credit metrics for a downgrade include total debt/OPBDITA of more than 2.5 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	Standalone

About the company

Shreyas Shipping and Logistics Limited (SSLL), incorporated in 1988, is the Indian-flagged vessel owning company and part of the Transworld Group. SSLL was incorporated by the late Mr. R Sivaswamy to own and operate vessels for container feeder operations between Indian and international container trans-shipment ports. It was the first to provide coastal trans-shipment services at several domestic ports. Post the sale of its containerised domestic coastal and EXIM feeder shipping business in 2021 to Transworld Feeders Private Limited, the company only owns vessels and majority of the vessels are under a long-term chartering arrangement. SSLL has a fleet of 11 container feeder ships with an aggregate capacity of 24,544 TEUs. SSLL also owns two handysize dry bulk carriers with an aggregate capacity of 69,000 DWT.

The Transworld Group consists of multiple companies with interests in shipping agency business, operating container vessels, freight forwarding, transportation & logistics solutions, operating container freight stations, container park management, ship repairs and ship handling & transportation.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income**	513.6	483.8
PAT	251.4	196.8
OPBDIT/OI	43.8%	50.9%
PAT/OI	49.0%	40.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	1.0	2.0
Interest coverage (times)	18.7	13.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ** 2/3rd Share of TFPL*

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 on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 26, 2023	-	-	-
1	**Fund based – Term loan**	Long term	52.60	52.60	**[ICRA] A- (Stable)**	-	-	-
2	**Unallocated limits**	Long term	7.40	-	**[ICRA] A- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loan	Simple
Unallocated limits	NA

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	**Term loan**	March-2023	-	March-2031	52.60	[ICRA] A- (Stable)
NA	**Unallocated limits**	NA	NA	NA	7.40	[ICRA] A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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