

November 20, 2023

Shreyas Shipping And Logistics Limited: Rating downgraded to [ICRA]BBB+(Stable)

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade of Shreyas Shipping and Logistics Limited (SSLL) factors in its reduced scale of operations, the decline in profitability and deterioration in the debt coverage metrics. SSLL announced its Q2 FY2024 results (material event) on November 08, 2023 to the stock exchange. The revenue and profitability declined in H1 FY2024 due to reduced freight rates, lower vessel capacity utilisation and loss in voyage days. The decline in profitability has deteriorated the debt coverage metrics, which is expected to remain modest in FY2024. Further, SSLL's operations are capital-intensive, and the debt-funded capex kept the debt levels elevated. The rating also takes note of vulnerability of the operating income to the inherent cyclicity in the shipping business, volatility in charter rates and regulatory changes.

The rating, however, positively factors in the extensive experience and established position of Shreyas Shipping and Logistics Limited (SSLL) in the shipping business. Further, SSLL is a 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 with Transworld Feeders Private Limited (TFPL), part of Unifeeder ISC FZCO (a DP World Group company), providing revenue visibility. 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 and cash and cash equivalents, which support the company's liquidity position. 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.

ICRA has also taken note of an announcement 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. After the acquisition, SSLL's equity shares had to be delisted from the BSE and the NSE. However, the delisting process was not successful owing to the shareholders' expectation of higher bids, which was acceptable to THL. ICRA will continue to monitor the updates pertaining to this process.

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 majority of the 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 the receipt of 50% of the payments upfront on a quarterly basis.

Credit challenges

Moderation in revenues, decline in profitability and deterioration in coverage metrics – The revenue and profitability declined in H1 FY2024 due to reduced freight rates, lower vessel capacity utilisation and loss in voyage days. The company's revenue is susceptible to changes in charter hire rates, which are linked to freight rates. The revenue declined to Rs. 121 crore and the company reported operating losses in H1 FY2024. The decline in profitability has deteriorated the debt coverage metrics, which is expected to remain modest in FY2024.

Capital-intensive operations – SSLL's operations are capital-intensive and rely on debt-funded capex to increase the fleet and replace 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 cyclicity in shipping industry, charter rates and regulatory changes – SSLL's revenues remain vulnerable to the inherent cyclicity in the shipping industry and the volatility in 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 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 a 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. 84 crore as on Sep 30,2023. The company's liquidity profile is further strengthened by the presence of DSRA of ~Rs. 44 crore to meet three months of debt obligations. SSLL has repayment obligations of Rs. 106 crore each in FY2024 and FY2025 for its existing term loans. In addition, SSLL has moderate capex plans of ~Rs. 20 crore p.a

towards dry docking from FY2024-FY2026. 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 2.2 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of a 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 2.7 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 handysized 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	H1FY2024*
Operating income	513.6	483.8	121.0
PAT	251.4	196.8	-33.9
OPBDIT/OI	43.8%	50.9%	-1.2%
PAT/OI	49.0%	40.7%	-28.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.6
Total debt/OPBDIT (times)	1.0	2.0	-154.3
Interest coverage (times)	18.7	13.4	-0.1

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

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
					Nov 20, 2023	Jun 26, 2023			
1	Fund based – Term loan	Long term	52.60	52.60	[ICRA] BBB+ (Stable)	[ICRA] A- (Stable)	-	-	-
2	Unallocated limits	Long term	7.40	-	[ICRA] BBB+ (Stable)	[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] BBB+ (Stable)
NA	Unallocated limits	NA	NA	NA	7.40	[ICRA] BBB+ (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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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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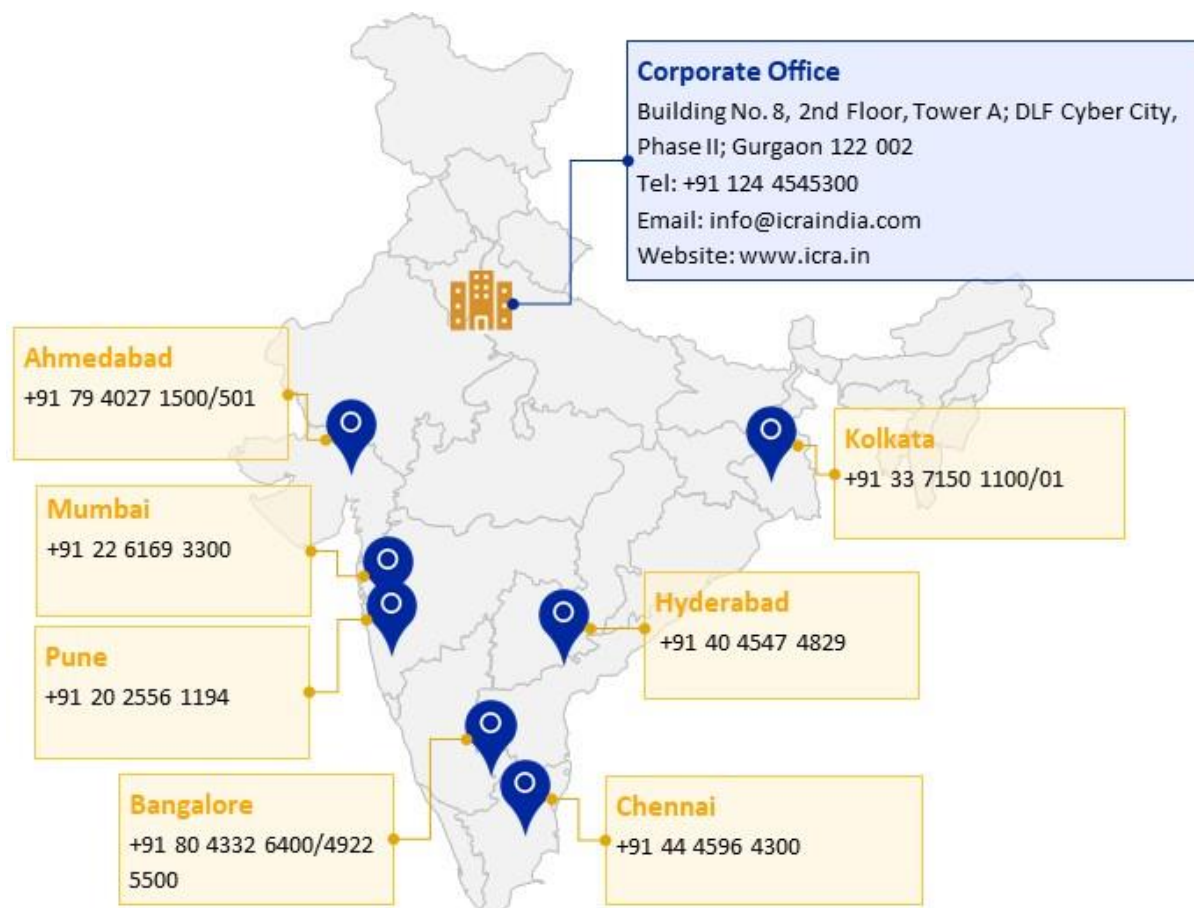


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