August 02, 2019

The Shipping Corporation of India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating[1]	--	--	[ICRA]AA-(Stable); Reaffirmed
Short-term Debt Programme	1,000	1,000	[ICRA]A1+; Reaffirmed
Total	**1,000**	**1,000**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation takes into account the strong competitive position of The Shipping Corporation of India Limited (SCI) in the domestic market, backed by its sizeable and diversified fleet, and large sovereign ownership resulting in strong financial flexibility. The ratings also factor in the company's long track record in the shipping business, and established relationships with major public sector units (PSUs) viz. Indian Oil Corporation Limited (IOCL), Oil and Natural Gas Corporation Limited (ONGC), Hindustan Petroleum Corporation Limited (HPCL) etc. The ratings also factor in the healthy utilisation of the company's fleet, along with the modest uptick in the charter rates, mainly in the company's key segments, viz. tanker and dry bulk segments, which are expected to see further improvement. This is due to the revised emission norms by the International Maritime Organisation (IMO) (to come into force from January 2020) that could lead to the scrapping of older vessels leading to rationalisation in the global fleet. ICRA also takes comfort from the stated position of SCI's management to maintain sufficient cash balances at any point in time.

The ratings are, however, constrained by the company's subdued profitability and return indicators as charter rates, despite the relative improvement, remain well below the past peak levels, while several new contracts for ships were entered into by the company at the peak of the shipping cycle. The company's net profits turned negative in FY2019 owing to sizeable forex losses, though a part of the same is mark-to-market in nature. The company also remains exposed to volatility in bunker prices for its vessels deployed on voyage charter and contract of affreightment (CoA) basis. The ratings are also constrained by susceptibility of the company's profitability to the volatility in freight rates, as most of its fleet operates on voyage charter or period charter of short duration ranging from three months to one year. ICRA also notes that the company's debt service coverage ratio remained below 1 time, and while it enjoys high financial flexibility owing to its sovereign ownership, the cash flow mismatches resulted in an increase in its reliance on short-term borrowings.

Outlook: Stable

ICRA expects SCI to benefit from its sovereign ownership, established presence in the domestic market and diversified fleet. The outlook may be revised to Positive if there is a healthy and sustained revival of charter rates, resulting in increased revenues and profitability across segments. The outlook may be revised to Negative if the company's financial profile witnesses any material deterioration due to a further slump in the charter rates or any sizeable debt-funded capex, or if there is a weakening in its linkage with the Government of India (GoI).

[1] With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the issuer rating scale with that of the long-term rating scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details.

Key rating drivers

Credit strengths

Long and established track record - The company has a long track record in the shipping business and hence, has established relationships with major PSUs. Furthermore, SCI has a strong competitive position in the domestic market, having the largest fleet size in the Indian shipping industry.

Well diversified across business segments - SCI derives strength from its presence in various business segments and having a diversified fleet. It currently operates a fleet of 61 vessels, including 15 crude oil tankers, five very large crude carriers (VLCCs), 13 product tankers, 15 bulk carriers, 10 offshore supply vessels (OSVs), two container vessels and one gas carrier. The company's dominant position the market and long-standing relationships with oil refining and exploration companies and steel manufacturers ensure high fleet utilisation.

High financial flexibility - SCI enjoys high financial flexibility derived from its sizeable liquid investments (Rs. 998.2 crore as on March 31, 2019) and sovereign ownership, which enables it to raise funds at a competitive cost. The stated position of SCI's management to maintain sufficient cash balances at any point in time provides additional comfort.

Credit challenges

Operations susceptible to volatility in charter rates - The company's profitability levels in the recent years were impacted by low charter rates, owing to oversupply of vessels in the market. Nonetheless, with some improvement in charter rates, the tanker and dry bulk segments reported higher operating profits in FY2019, which were partly offset by operating losses from the liner and offshore segments. Since a majority of SCI's fleet is operating on voyage charter or period charter of short duration, the company's operations remain exposed to fluctuations in the charter rates.

Voyage charter contracts exposed to bunker price volatility - Bunker prices witness sharp variations in line with the volatility in international crude prices. SCI bears the bunker costs when vessels are deployed on a voyage charter or CoA basis (where the charter rates are fixed for the contract term); hence, exposing itself to any sudden fluctuations in bunker prices.

Weak coverage indicators - The company's profitability and return indicators remained subdued as it entered several new contracts for ships at the peak of the shipping cycle, post which charter rates have not recovered in a material manner. The company has sizeable debt repayment obligations (~Rs. 1,000 crore annually for the next two-year period), for which it would have to raise additional funds to the extent of cash flow mismatches. Nonetheless, given SCI's sovereign ownership and established relationships with lenders, ICRA does not foresee any serious challenges to meet the cash flow mismatches in the near to medium term.

Liquidity position

SCI's liquidity position is supported by surplus cash balances of Rs. 998 crore as on March 31, 2019. The company's cash flows are unlikely to be sufficient to meet the immediate debt repayments (~Rs. 1,000 crore in FY2020) unless the charter rates witness healthy improvement for a sustained period. Nonetheless, ICRA expects the cash shortfall (estimated to be about Rs. 200-300 crore) to be met by SCI through additional short-term borrowings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Entities in the Shipping Industry]
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SCI. As on March 31, 2019, the company had one subsidiary and six joint ventures (JVs), which are enlisted in Annexure-2.

About the company

Incorporated in 1961, The Shipping Corporation of India Limited is a national carrier, with the GoI holding 63.75% of the equity as on March 31, 2019. SCI is the largest Indian shipping company in terms of capacity, with a fleet size of 70 ships. The company is diversified in terms of its business segments - namely, crude oil/product tankers, dry bulk, offshore services, and container operations. The company also has a presence in passenger vessels, and chemical and gas transportation. SCI manages close to 39 vessels on behalf of third parties, primarily PSUs/Government departments/union territories, whereby it earns service income. SCI also has few JVs with leading international shipping companies.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	3,446.9	3,469.5
PAT (Rs. crore)	253.8	-122.0
OPBDIT/OI (%)	19.6%	20.2%
RoCE (%)	1.6%	2.8%
Total Debt/TNW (times)	0.8	0.7
Total Debt/OPBDIT (times)	8.2	6.7
Interest Coverage (times)	3.7	1.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019 Jul 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017 Apr 2016
1	Issuer Rating	Long Term	--	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Short-term Debt Programme	Short Term	1,000	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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 (Rs. crore)	Current Rating and Outlook
--	Issuer Rating	--	--	--	--	[ICRA]AA- (Stable)
--	Short-term Debt Programme	--	--	7-365 days	1,000	[ICRA]A1+

Source: The Shipping Corporation of India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Inland & Coastal Shipping Ltd.	100.00%	Full Consolidation
Irano Hind Shipping Co. Ltd.	49.00%	Equity Method
India LNG Transport Co. (No. 1) Ltd.	29.08%	Equity Method
India LNG Transport Co. (No. 2) Ltd.	29.08%	Equity Method
India LNG Transport Co. (No. 3) Ltd.	26.00%	Equity Method
India LNG Transport Co. (No. 4) Ltd.	26.00%	Equity Method
SAIL SCI Shipping Pvt. Ltd.	50.00%	Equity Method

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About ICRA Limited:

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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