

Press Release

The Shipping Corporation of India Limited

February 05, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 7500.00 Cr.
Long Term Rating	ACUITE AA/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) and short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 7,500.00 Cr bank facilities of The Shipping Corporation of India Limited (SCIL). The outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned derives comfort from the company's long track record of operations in the shipping industry, Government of India's (GoI) ownership and established relationship with reputed clienteles like Bharat Petroleum Corporation Limited (BPCL), Indian Oil Corporation Limited (IOCL), Oil and Natural Gas Corporation Limited (ONGC), Hindustan Petroleum Corporation Limited (HPCL) to name a few. SCIL is the largest domestic shipping company in terms of tonnage capacity with a diversified fleet of 59 vessels. The rating is further supported by a comfortable financial profile with a low gearing of 0.65 times and debt to EBITDA coverage of 3.40 times as on March 31, 2020. The debt coverage indicators are healthy with cash accruals of Rs.1007.74 Cr in FY20 and outstanding cash equivalent of Rs.937.82 Cr as on March 31, 2020.

The rating is, however, constrained by the prolonged slowdown in the shipping industry with freight and charter rates under pressure over the last three years due to overcapacity, volatility in crude prices and limited scrapping although lately there has been a recovery in these trends. Further, the profitability will remain vulnerable to the weakness in the global economy, a challenging industry scenario due to the current pandemic situation and exposure to foreign exchange risks.

About the Company

The Shipping Corporation of India Limited (SCIL) was incorporated in 1961. The Government of India (GoI) holds 63.75% of the equity as on December 31, 2020. SCIL is the largest Indian shipping company in terms of capacity with a diversified fleet profile. The company is involved in business of transporting goods and passengers. SCIL's owned fleet includes Bulk carriers, Crude oil tankers, Product tankers, Container vessels, Passenger-cum-Cargo vessels, LPG carrier and Offshore Supply Vessels. The average age of vessels is 8-10 years. The company also mans and manages a large number of vessels on behalf of various government departments and organizations, on which it earns service income. SCIL also has a few joint ventures with leading international shipping companies. The GoI has conferred "Navratna" status to SCIL in August, 2008.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of The Shipping Corporation of India Limited (SCIL) along with its subsidiary and six joint ventures.

*Pls refer Annexure 2 .

Key Rating Drivers

Strengths

- **Long track record of operations along with diversified business segment**

SCIL is one of the largest shipping company in India. The company has an operational track record of around six decades. SCIL benefits from its experienced management which comprises qualified professionals and nominees of GOI. SCIL's long track record has helped it establish relationship with major PSU's in India like IOCL, HPCL, BPCL, ONGC, etc. 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, chemicals and gas transportation. The company currently has the largest fleet size of 59 vessels. The company has a relatively young fleet, with an average age of around 8-10 years which helps the company in getting better charter rates and achieving higher operating efficiency. SCIL also manages vessels on behalf of third parties, primarily Public-Sector Units (PSUs)/ Government Departments/Union Territories, on which it earns service income. Currently, SCIL is managing 35 third party vessels.

Acuite believes that SCIL will continue to benefit from its long operational track record and established relationship with the PSU's.

- **Improving operating performance**

The company reported operating income of Rs. 4420.64 Cr in FY2020 as against Rs. 3872.53 Cr in FY2019. Further, the revenues stood at Rs. 1986.67Cr for H1FY2021. The Tanker segment has outperformed other segments due to high demand of tanker vessels resulting into high TCY (time charter yield) during the last three quarters. Bulk segment performance has remained steady and at par with market conditions. The Technical & Offshore segment has shown improvement in terms of revenue as well as profit due to long term contracts and better utilization of vessels. The Liner segment has also shown improved performance in terms of revenue but could not reflect the same in segment results due to higher operational costs. However, low sulphur bunker cost and devaluation of rupee has affected the performance of the company to some extent.

Weaknesses

- **Volatility in Charter Rates**

The company's profitability levels were impacted due to low charter rates, owing to oversupply of vessels in the market. However, with some improvement in charter rates, the tanker and dry bulk segments reported higher operating profits in FY2019 and FY2020, which were partly offset by losses from the liner and offshore segments. The liner segment registered a loss of Rs. 110.16 Cr in FY2020 as against loss of Rs.70.71 Cr in FY2019. The Operating Income increased from Rs. 593.62 Cr in FY2019 to Rs. 644.88 Cr in FY2020 due to better utilization of vessels. However, negative impact of high bunker costs and blanking off costs resulted in net loss. The dry bulk segment is still recovering from historically bad period and loss of key cargoes such as Iron ore from India resulting in non-profitable ballast voyage legs thereby reducing earnings. Although some relief was offered by coal cargoes & minor bulks as well as profitable coastal trades, earnings remained subdued & at times below break-even levels due to low freight markets, especially in the last two quarters of FY2020. With relatively few opportunities to capitalize on, the dry bulk segment gave an underwhelming performance financially. However, the demand in this segment is expected to revive.

Since a majority of SCIL's fleet is operating on voyage charter, the company's operations remain exposed to fluctuations in the charter rates.

- **Vulnerability to fluctuations in forex risks**

SCIL's income and the majority of its operating expenditure are predominantly USD-denominated. Freight rates, as well as the sale values of ships, are determined in USD. The company has its liabilities also denominated in USD. Any significant movement in the currency or interest rates could impact the company's financials. While there is a natural hedge, the company is exposed to foreign currency and derivative risks (MTM losses), as seen in the non-operating losses being incurred during FY19 and FY20. As per the audited financials, SCIL's profit (before adjusting derivative MTM losses and foreign exchange losses) stood at Rs.653.04 Cr.

• **Proposed Strategic Divestment by Gol**

The Cabinet Committee has approved the strategic divestment of Gol's entire shareholding of 63.75% in SCIL, along with transfer of management control to a strategic buyer. During the year ended 31st March 2020, Department of Public Asset Management (DIPAM), Gol has appointed Transaction Advisor (TA), Legal Advisor (LA) and Asset Valuer (AV) for the same. The bidding process has commenced from December 22, 2020 and will close on February 13, 2021. However, the timelines for completion of the divestment process are currently being finalized. The impact of the change in ownership and management control on the business risk profile and financial flexibility of the company is yet to be determined.

Acuite believes, change in ownership of the company will be a key rating sensitivity over the medium term.

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.595.80 – 1007.74 Cr during the three years through 2018-20, while its maturing debt obligations were in the similar range over the same period. The cash accruals of the company are estimated to remain around Rs.1100.00~1445.00 Cr during 2021 -23. In addition to various funding sources backed by Gol's ownership, SCIL has healthy cash and liquid investments of ~Rs. 855.91 Cr as on March 31, 2020 in addition to net cash accruals. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual to meet its repayment obligation over the medium term.

Rating Sensitivities

- Sustainable revenue growth with improvement in the operating margin
- Change in ownership of SCIL

Material Covenants

None

Outlook: Stable

Acuite believes that SCIL will maintain a stable credit profile on the back of its established presence in the industry and improving operating performance. The outlook may be revised to 'Positive' in case of significantly higher than expected growth in accruals and a further strengthening in business risk profile. Conversely, the outlook may be revised to 'Negative' in case of a slowdown in the operating performance or weakening of relationships with PSU's on account of change in ownership thereby impacting the fleet utilisation capacity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	4420.64	3872.53
PAT	Rs. Cr.	336.48	(62.66)
PAT Margin	(%)	7.61	(1.62)
Total Debt/Tangible Net Worth	Times	0.65	0.74
PBDIT/Interest	Times	3.87	2.78

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Services Sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Not Applicable

***Annexure 1– Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
FCNB	Nov-2020	Not Applicable	Nov-2025	124.20	ACUITE AA/ Stable (Assigned)
FCNB	Aug-2020	Not Applicable	Aug-2027	288.48	ACUITE AA/ Stable (Assigned)
ECB	Dec-2016	Not Applicable	Mar-2027	295.61	ACUITE AA/ Stable (Assigned)
ECB	Apr-2017	Not Applicable	Jun-2027	302.63	ACUITE AA/ Stable (Assigned)
FCNB	Mar-2017	Not Applicable	Apr-2025	520.13	ACUITE AA/ Stable (Assigned)
FCNB	Apr-2018	Not Applicable	Apr-2028	547.50	ACUITE AA/ Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1095.00	ACUITE AA/ Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE AA/ Stable (Assigned)
Working Capital/ Short Term Loan	Not Applicable	Not Applicable	Not Applicable	1876.45	ACUITE A1+ (Assigned)
Bank Guarantee/ Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2000.00	ACUITE A1+ (Assigned)

***Annexure 2– list of entities considered for consolidation.**

Name of the Company	Relationship with SCIL	% Holding	Extent of Consolidation
Inland and Coastal Shipping Limited	Subsidiary	100	Full
Irano Hind Shipping Company	Joint Venture	49	Partial (Equity Method)
SAIL SCI Shipping Pvt Ltd (SSSPL)	Joint Venture	50	Partial (Equity Method)
India LNG Transport Co. (No.1.) Ltd	Joint Venture	29.08	Partial (Equity Method)
India LNG Transport Co. (No.2.) Ltd	Joint Venture	29.08	Partial (Equity Method)
India LNG Transport Co. (No.3.) Ltd	Joint Venture	26	Partial (Equity Method)
India LNG Transport Co. (No.4.) Ltd	Joint Venture	26	Partial (Equity Method)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041</p> <p>aditya.gupta@acuite.in</p> <p>Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294031</p> <p>aishwarya.phalke@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022- 49294011</p> <p>rating.desk@acuite.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.