

Press Release

The Shipping Corporation of India Limited

March 21, 2022



Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------------|-------------------------|
| Bank Loan Ratings | 3623.55 | ACUITE AA Stable Reaffirmed | - |
| Bank Loan Ratings | 3876.45 | - | ACUITE A1+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 7500.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating '**ACUITE AA**' (read as **ACUITE double A**) and short-term rating '**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 reaffirmation continues to reflect 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 0.45 times and debt to EBITDA of 2.71 times as on March 31, 2021. The cash accruals continue to remain at Rs.1324.02 Cr in FY21.

The rating however remains constrained by the prolonged slowdown in the shipping industry with volatility in crude prices and limited scrapping although lately there has been a recovery in these trends. Further, the profitability remains vulnerable to the weakness in the global economy, a challenging industry scenario and exposure to foreign exchange fluctuation risks.

About Company

The Shipping Corporation of India Limited (SCIL) was incorporated in 1961. Government of India (GoI) holds 63.75% of the equity as on December 31, 2021. 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 ranges between 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 had conferred "Navratna" status to SCIL in August, 2008.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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

| Name of the Company | Relationship with SCI | % Holding | Extent of Consolidation |
|-------------------------------------|-----------------------|-----------|-------------------------|
| Inland and Coastal Shipping Limited | Subsidiary | 100.00 | Full |
| Irano Hind Shipping Company | Joint Venture | 49.00 | Partial (Equity Method) |
| SAIL SCI Shipping Pvt Ltd (SSSPL) | Joint Venture | 50.00 | 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 | 26.00 | Partial (Equity Method) |
| India LNG Transport Co. (No.4.) Ltd | Joint Venture | 26.00 | Partial (Equity Method) |

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 36 third party vessels.

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

>Improving Operating Performance and Profitability

The operating income of the company had deteriorated slightly in FY 2021 as compared to FY 2020. However, in 9 M FY 2022 revenue has improved and company has already achieved a turnover of Rs 3687.38 Crores equivalent to revenue achieved in FY 2021. The improvement in revenue is attributable to significant improvement in liner freight indices and bulk segment due to significant improvement in charter rates. The company's operating profitability has also improved in FY 2021 to 32.11% from 25.86% in FY 2020. A surge in the tanker charter hire rates during the first half of FY 2020-21 helped the Tanker Segment to post significant profits. Bulk segment reported profits after being in the losses for past few years. The Liner segment, in the backdrop of upbeat freight rates which held firm owing to favorable demand supply dynamics performed well and posted encouraging results. Company is adopting various cost saving measures accruing to the liner services viz. considerable saving on feeder and trans-shipment costs by reducing carrying cargoes to non-base ports, better inventory

management, control on repair costs of vessels and containers. However, Offshore segment remain impacted both in terms of revenue and profit.

PAT margins has also been improved to 18.82% in FY 2021 from 7.61% in FY 2020, improvement in PAT margins is attributable majorly to devaluation of USD resulted in decrease in interest cost. Acuite believes that the bulk and liner segment will continue to contribute significantly to the revenue growth over the medium term.

>Above Average Financial Risk Profile

The company has an above average financial risk profile marked with strong net worth, gearing ratio and moderate debt protection metrics. Tangible Net worth of the company stood at Rs 8146.02 crores in FY 2021 as against Rs 7458.17 crores in FY 2020, improvement in net worth is due to accretion of profit in reserves. The company follows a conservative financial policy reflected through gearing ratio (debt/equity) of 0.45x and 0.65x as on FY 2021 and FY 2020 respectively. TOL/TNW of the company stood at 0.64x and 0.86x as on FY 2021 and FY 2020 respectively. The interest-coverage-ratio of the company stood comfortable at 62.53x in FY 2021 as against 3.87X in FY 2020. Debt-service-coverage ratio stood moderate at 1.22x in FY 2021.

Acuite believes that financial risk profile of SCIL is likely to remain above average owing to no major fleet expansion plans and sufficient profit accretions.

Weaknesses

>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.

>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. The bids received are under evaluation in DIPAM. Further as per the directives received from Ministry, company has appointed M/s Corporate Professionals Capital Pvt. Ltd. as consultant for demerger / hive off / transfer of non-core assets and assets held for sale and M/s Confix Data Room Pvt. Ltd has been appointed as a Virtual Data Room (VDR) Service Provider. The VDR has been opened for the due diligence process by the Qualified Interested Parties (QIPs) from 12th July 2021 and the process is on. However, the timelines for completion of the divestment process are currently not 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.

ESG Factors Relevant for Rating

Environmental issues related to the water transport industry are GHG emissions, air pollutant emissions, environmental management, energy efficiency, biodiversity impact and waste management. SCI has always taken the necessary steps for minimizing air pollution and oil pollution from ships and is committed to environmental protection as per International Convention for the Prevention of Pollution from ships. The company has successfully complied with the IMO's 0.5% sulphur fuel regulation as all vessels are being supplied low sulphur fuel oil since January 2020. Also, all engines fitted on board are meeting applicable NOx emissions requirements and for the existing vessels, company had developed a Ship Specific Energy Efficiency Management Plan (SEEMP) to improve and monitor energy efficiency in ship

operations. Company has also adopted various eco-friendly policies and conservation of energy techniques by using eco-friendly refrigerants, installing Ballast Water Treatment plants, availability of Inventory of Hazardous Materials on most of its ships, using TBT free paints, etc. On the social responsibility front, SCI has emphasized this year on school education of underprivileged children, maritime education for weaker sections of the society, eradication of hunger and malnutrition, women empowerment & skill development and health care. On the governance part, the company has complied with the requirements of corporate governance like appointment of both Executive and Non-Executive directors, diversity in terms of qualification, skills and competence in its board, formed different committees like Audit Committee, Nomination and Remuneration Committee, CSR Committee, Stakeholder relationship Committee, etc. but with the exception of appointment of independent director to the extent of 50% of total directors in board and non-appointment of woman independent director in board from April 2020. The stock exchanges had levied the penalty on the company for non-compliance of same. BSE has waived the penalties levied on request of the company but NSE has directed to ensure the compliance first. However, the matter has already been taken up with the Administrative Ministry for the compliance of same. SCI has also adopted the guidance issued by the DPE in 2010 on Corporate Governance.

Rating Sensitivities

- Improvement in scale of Operations and sustainability of operating margins.
- Change in ownership of SCIL

Material Covenants

None

Liquidity Position: Adequate

SCI has an adequate liquidity position marked by sufficient net cash accruals against its maturing debt obligations. The company has generated net cash accruals of Rs. 1324.02 crores against the maturing debt obligation of Rs 1077.39 crores during the same tenure. The cash accruals of the company are estimated to remain around Rs 1282.39-1543.88 crores against the maturing debt obligations of Rs 567.95-623.96 crores over the medium term. SCIL has healthy cash and liquid investments of ~Rs. 983.19 Cr as on March 31, 2021 in addition to net cash accruals. Acuité 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.

Outlook: Stable

Acuité 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.

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 3698.09 | 4420.64 |
| PAT | Rs. Cr. | 696.09 | 336.48 |
| PAT Margin | (%) | 18.82 | 7.61 |
| Total Debt/Tangible Net Worth | Times | 0.45 | 0.65 |
| PBDIT/Interest | Times | 62.53 | 3.87 |

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|-------------------------------|
| 05 Feb 2021 | Foreign Currency Term Loan | Long Term | 547.50 | ACUITE AA Stable (Assigned) |
| | Foreign Currency Term Loan | Long Term | 302.63 | ACUITE AA Stable (Assigned) |
| | Foreign Currency Term Loan | Long Term | 288.48 | ACUITE AA Stable (Assigned) |
| | Foreign Currency Term Loan | Long Term | 520.13 | ACUITE AA Stable (Assigned) |
| | Short Term Loan | Short Term | 1876.45 | ACUITE A1+ (Assigned) |
| | Proposed Long Term Loan | Long Term | 1095.00 | ACUITE AA Stable (Assigned) |
| | Foreign Currency Term Loan | Long Term | 124.20 | ACUITE AA Stable (Assigned) |
| | Foreign Currency Term Loan | Long Term | 295.61 | ACUITE AA Stable (Assigned) |
| | Bank Guarantee | Short Term | 2000.00 | ACUITE A1+ (Assigned) |
| | Proposed Term Loan | Long Term | 450.00 | ACUITE AA Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|-------------------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|---------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 2000.00 | ACUITE A1+ Reaffirmed |
| State Bank of India | Not Applicable | External Commercial Borrowing | 01-12-2016 | Not Applicable | 31-03-2027 | 256.31 | ACUITE AA Stable Reaffirmed |
| Standard Chartered Bank | Not Applicable | External Commercial Borrowing | 01-04-2017 | Not Applicable | 30-06-2027 | 261.56 | ACUITE AA Stable Reaffirmed |
| Exim Bank | Not Applicable | Foreign Currency Term Loan | 01-03-2017 | Not available | 30-04-2025 | 390.08 | ACUITE AA Stable Reaffirmed |
| Exim Bank | Not Applicable | Foreign Currency Term Loan | 01-04-2018 | Not available | 30-04-2028 | 477.65 | ACUITE AA Stable Reaffirmed |
| Bank of India | Not Applicable | Foreign Currency Term Loan | Not available | Not available | 31-03-2026 | 1096.70 | ACUITE AA Stable Reaffirmed |
| State Bank of India | Not Applicable | Foreign Currency Term Loan | 01-11-2020 | Not available | 30-11-2025 | 106.22 | ACUITE AA Stable Reaffirmed |
| State Bank of India | Not Applicable | Foreign Currency Term Loan | 01-08-2020 | Not available | 27-08-2027 | 248.43 | ACUITE AA Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 786.60 | ACUITE AA Stable Reaffirmed |
| State Bank of India | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | 1876.45 | ACUITE A1+ Reaffirmed |

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About Acuité Ratings & Research

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