

Press Release
The Shipping Corporation of India Limited
July 18, 2023
Rating Reaffirmed and Upgraded



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|--------------------------------|-------------------------|
| Bank Loan Ratings | 4688.39 | ACUITE AA+ Stable Upgraded | - |
| Bank Loan Ratings | 2811.61 | - | ACUITE A1+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 7500.00 | - | - |

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE AA+**' (read as **ACUITE double A plus**) from '**ACUITE AA**' (read as **ACUITE double A**) and reaffirmed its 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 Upgrade

The rating upgrade factors increasing strategic importance of SCIL towards the Government of India's (GoI) initiatives, and especially in the maritime industry. The company has played a pivotal role of supplying vessels to the Indian Government for their key operations, such as Mars Orbiter Mission of ISRO (Indian Space and Research Organisation) and other defence missions via agreement with DRDO (Defence Research and Development Organisation). Furthermore, SCIL have created strategic alliances with other governments, such as Maldives, Andaman & Nicobar Islands for providing maritime services among islands. They have also been serving projects of national importance through the continued partnerships with other GoI undertakings like ONGC Limited, and Geological Survey of India (GSI) for offshore services. Acuite believes that the continued reliance of GoI and its sustained support to SCIL for its ongoing and new engagements with Ministry of Defence, External Affairs, and Ministry of Petroleum & Natural Gas is likely to augur well for SCIL.

The rating also takes into account the company's long track record of operations in the shipping industry, Government of India's (GoI) ownership and established relationship with the reputed client 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 ratings also takes into account the stable operations of the company reflected by growth of ~16% YoY in consolidated revenues to Rs.5794.01 Cr. in FY23 compared against Rs.4988.08 Cr. in FY22 on back of healthy recovery from the tanker business during the year.

The rating is further supported by a healthy financial profile with a low gearing of 0.37 times and debt to EBITDA coverage of 1.48 times as on March 31, 2023. The net worth of the company also remained healthy at Rs.6902.33 Cr. as on 31 March 2023. The debt coverage indicators remaining comfortable marked by Interest Coverage Ratio of 9.45 times and Debt Service Coverage Ratio of 2.30 times for FY23.

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 is likely to remain vulnerable to the weakness in the global economy as marked by continuous deterioration in operating profit margin to 26.86% in FY23 as against 30.62% in FY22 and 32.11% in FY21. The deterioration is majorly on account of increase in average bunker rates and forex variations during the period. Furthermore, the operations of the company remain susceptible towards challenging industry scenario and exposure to foreign exchange risks.

Acuité also takes note of the demerger of SCI's non-core assets to Shipping Corporation of India Land and Assets Limited (SCILAL) as approved by the boards of SCI as well as SCILAL and Department of Investment and Public Asset Management (DIPAM) along with Ministry of Ports, Shipping and Waterways (MoPSW). In accordance with the Demerger Scheme, all the non-core assets and liabilities including MTI unit/undertaking, which ceased to be assets / liabilities of SCI as at appointed date of 01.04.2021 has been reduced from the books of accounts of the company. Furthermore, 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. However, the timelines for completion of the divestment process are currently being finalized, and the impact of the change in ownership and management control will remain a key rating sensitivity over the medium term.

About Company

The Shipping Corporation of India Limited (SCIL) was incorporated in 1961. The Government of India (Gol) holds 63.75% of the equity as on March 31, 2023. 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 11-12 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 Gol has 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 along with its subsidiary and four joint ventures to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations along with diversified business segment

SCIL is one of the largest shipping companies in India with an operational track record of around six decades. It benefits from the experienced management of qualified professionals and nominees of GOI. The long track record has helped them establishing relationships with major PSUs in India like IOCL, HPCL, BPCL, ONGC, etc. The company have diversified business segments which includes crude oil/product tankers, dry bulk, offshore services, and container operations, and has a presence in passenger vessels, chemicals, and gas transportation. SCIL currently has the largest fleet size of 59 vessels; a relatively younger fleet, with an average age of around 11-12 years which helps them in getting better charter rates and achieving

higher operating efficiency. Vessels on behalf of third parties, primarily Public-Sector Units (PSUs)/ Government Departments/Union Territories are also managed for service income. Currently, SCIL are managing 53 third party vessels.

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

Strategic importance to Government of India

With more than six decades of operational track record, SCIL remains strategically important to the Government of India. The company have been playing a pivotal role towards supplying vessels for the Indian Government key operations such as Mars Orbiter Mission of ISRO (Indian Space and Research Organisation) and other defence missions via agreement with DRDO (Defence Research and Development Organisation). Furthermore, SCIL have created strategic alliances with other governments such as Maldives, Andaman & Nicobar Islands for providing maritime services among islands. They have also been serving projects of national importance by partnering with ONGC and Geological Survey of India (GSI) for offshore services. Apart from that, the company deployed its container vessel on direct "India – Middle East Shipping Service" which connects East & West Coast of India with Middle East ports of Jebel Ali and Hamad and will also cater to other ports in Persian Gulf.

Stable business operations

The business operations of the company remained stable over the years marked by healthy growth in revenue from operations by ~25% CAGR over FY21-23 period. The consolidated company achieved revenues of Rs.5794.01 Cr. in FY23 compared against Rs.4988.08 Cr. in FY22 and Rs.3698.09 in FY21. The improvement in revenue is attributable to significant improvement in liner freight indices and bulk segment due to significant improvement in charter rates. A surge in the tanker charter hire rates helped the Tanker Segment to post significant profits. The dry bulk segment is still recovering from historically bad period and loss of key cargoes such as Iron ore exports from India, resulting in long non-profitable ballast legs thereby putting pressure on earnings. Although, in later parts of 2020, dry bulk trade recovered remarkably well on account of stimulus packages given by various governments and with China, the main driver of dry bulk demand, recovering quickly from COVID-19 crisis. Simultaneous occurrence of multiple factors conducive for the dry bulk shipping business, viz., spike in dry bulk materials demand, strong trade in grain, coal and iron ore segments, low active fleet growth maintaining tonnage balance etc. gave a good push to the dry bulk rates. Also, strong trade growth and tapering dry bulk carrier deliveries bode well for the near future.

Healthy Financial Risk Profile

The financial risk profile of the company remained healthy marked by strong net worth, gearing ratio and comfortable debt protection metrics. The tangible Net worth of the company stood at Rs.6902 crore in FY2023 as against Rs.5974 crore in FY2022. The debt/equity of the company improved and stood comfortably at 0.37x and 0.53x as on 31 March 2023 and 31 March 2022 respectively. The TOL/TNW of the company improved and stood low at 0.66x as on 31 March 2023 compared against 0.82 times as on 31 March 2022 respectively. The debt protection matrices of the company remained comfortable marked by interest-coverage-ratio of 9.45x and Debt-service-coverage ratio of 2.30x for FY2023.

Acuité believes that financial risk profile of SCIL may remain strong owing to no major capex plans and stable profit accretions.

Weaknesses

Deterioration in Profitability Margins; Operations remain vulnerability towards fluctuations in forex risks

The profitability of the company impacted and remained vulnerable owing to weakness in the global economy as marked by continuous deterioration in operating profit margins and Profit After Tax (PAT) margins over the years. The operating profit margin of the company declined to 26.86% in FY23 as against 30.62% in FY22 and 32.11% in FY21 and the PAT margin

declined to 15.02% in FY23 as against 17.25% and 18.82% in FY22 and FY21 respectively. The deterioration is majorly on account of increase in average bunker rates and forex variations during the period.

Furthermore, 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 risks (MTM losses).

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 Confiex 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 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.

Acuité 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 water transport industry is highly exposed to corporate governance issues such as regulatory compliance, board oversight and corrupt practices. Audit committee functioning and rights of shareholders are critical to this industry. The company is performing well in the key issues of audit committee functioning, board diversity and committee functioning. The company has adopted a policy on board independence and equal voting. It has a whistle blower protection program and a mechanism to enhance the effectiveness of its board. Additionally, the company complies with the Companies Act 2013 requirement for board independence, external auditor rotation and board gender diversity.

Rating Sensitivities

- Improvement in profitability margins with a stable business operations

- 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.1623.32 Cr. in FY2023 compared against matured debt obligations of Rs.601 Cr. during the same period. The cash accruals of the company are estimated to remain around Rs.1676-2093 Cr. during FY2024-26 period against the maturing debt obligations of Rs.300-600 Cr. over the same period. SCIL has healthy cash and bank balances of ~Rs.553.60 Cr as on March 31, 2023 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 PSUs on account of change in ownership thereby impacting the fleet utilisation capacity.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 5794.01 | 4988.08 |
| PAT | Rs. Cr. | 870.16 | 860.54 |
| PAT Margin | (%) | 15.02 | 17.25 |
| Total Debt/Tangible Net Worth | Times | 0.37 | 0.53 |
| PBDIT/Interest | Times | 9.45 | 10.76 |

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 19 Jun 2023 | Foreign Currency Term Loan | Long Term | 809.01 | ACUITE AA Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 1860.61 | ACUITE A1+ (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 89.56 | ACUITE AA Stable (Reaffirmed) |
| | Short Term Loan | Short Term | 951.00 | ACUITE A1+ (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 212.43 | ACUITE AA Stable (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 440.45 | ACUITE AA Stable (Reaffirmed) |
| | External Commercial Borrowing | Long Term | 247.12 | ACUITE AA Stable (Reaffirmed) |
| | External Commercial Borrowing | Long Term | 226.05 | ACUITE AA Stable (Reaffirmed) |
| | Proposed Term Loan | Long Term | 2355.46 | ACUITE AA Stable (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 308.31 | ACUITE AA Stable (Reaffirmed) |
| 21 Mar 2022 | Foreign Currency Term Loan | Long Term | 248.43 | ACUITE AA Stable (Reaffirmed) |
| | External Commercial Borrowing | Long Term | 256.31 | ACUITE AA Stable (Reaffirmed) |
| | Proposed Term Loan | Long Term | 786.60 | ACUITE AA Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 2000.00 | ACUITE A1+ (Reaffirmed) |
| | External Commercial Borrowing | Long Term | 261.56 | ACUITE AA Stable (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 1096.70 | ACUITE AA Stable (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 390.08 | ACUITE AA Stable (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 477.65 | ACUITE AA Stable (Reaffirmed) |
| | Short Term Loan | Short Term | 1876.45 | ACUITE A1+ (Reaffirmed) |
| | Foreign Currency Term Loan | Long Term | 106.22 | ACUITE AA Stable (Reaffirmed) |
| 05 Feb 2021 | Bank Guarantee | Short Term | 2000.00 | ACUITE A1+ (Assigned) |
| | Proposed Term Loan | Long Term | 450.00 | 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) |
| | | Long | | ACUITE AA Stable |

| | | | |
|----------------------------|-----------|---------|-------------------------------|
| Proposed Long Term Loan | Term | 1095.00 | (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) |
| Foreign Currency Term Loan | Long Term | 547.50 | ACUITE AA Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|-------------------------|----------------|------------------------------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 1860.61 | ACUITE A1+ Reaffirmed |
| State Bank of India | Not Applicable | External Commercial Borrowing | 18 Nov 2020 | Not Applicable | 18 Nov 2025 | Simple | 226.05 | ACUITE AA+ Stable Upgraded |
| Standard Chartered Bank | Not Applicable | External Commercial Borrowing | 12 Aug 2020 | Not Applicable | 11 Aug 2027 | Simple | 247.12 | ACUITE AA+ Stable Upgraded |
| Exim Bank | Not Applicable | Foreign Currency Term Loan | 30 Mar 2017 | Not available | 01 Jul 2025 | Simple | 308.31 | ACUITE AA+ Stable Upgraded |
| Exim Bank | Not Applicable | Foreign Currency Term Loan | 01 Apr 2018 | Not available | 01 Jan 2028 | Simple | 440.45 | ACUITE AA+ Stable Upgraded |
| Bank of India | Not Applicable | Foreign Currency Term Loan | Not available | Not available | 31 Mar 2026 | Simple | 809.01 | ACUITE AA+ Stable Upgraded |
| State Bank of India | Not Applicable | Foreign Currency Term Loan | 22 Dec 2016 | Not available | 31 Mar 2027 | Simple | 89.56 | ACUITE AA+ Stable Upgraded |
| State Bank of India | Not Applicable | Foreign Currency Term Loan | 24 Apr 2017 | Not available | 30 Jun 2027 | Simple | 212.43 | ACUITE AA+ Stable Upgraded |
| Not Applicable | Not Applicable | Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 2355.46 | ACUITE AA+ Stable Upgraded |
| State Bank of India | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 951.00 | ACUITE A1+ Reaffirmed |

* The Working Capital/ Short Term Loan limit is interchangeable with State Bank of India, Bank of India, Bank of Maharashtra, IndusInd Bank, ICICI Bank, Standard Chartered Bank and Axis Bank's limits.

** The non fund based limit is interchangeable with State Bank of India, Bank of India, Bank of Maharashtra, IndusInd Bank, ICICI Bank, Standard Chartered Bank and Axis Bank's limits.

***The external commercial borrowings are from State Bank of India, London and Standard Chartered Bank, Gift City

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

| Name of the Company | Relationship with Extent of SCI Consolidation |
|-----------------------------|---|
| Inland and Coastal Shipping | |

| | | | | | | |
|-------------------------|-------------|--|---------------|--|-----------------|---------|
| Limited (ICSL) | | | Subsidiary | | Full | |
| India LNG Transport Co. | (No.1.) Ltd | | Joint Venture | | Partial Method) | (Equity |
| India LNG Transport Co. | (No.2.) Ltd | | Joint Venture | | Partial Method) | (Equity |
| India LNG Transport Co. | (No.3.) Ltd | | Joint Venture | | Partial Method) | (Equity |
| India LNG Transport Co. | (No.4.) Ltd | | Joint Venture | | Partial Method) | (Equity |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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