June 25, 2024

# Apeejay Shipping Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based Limits – Cash Credit | Rs. 55.00 crore | Rs. 55.00 crore | [ICRA]A+ (Stable); reaffirmed |
| Fund-based Limits – Term Loan/WCTL | Rs. 269.00 crore | Rs. 434.00 crore | [ICRA]A+ (Stable); reaffirmed |
| Fund-based Limits – Term Loan | $3.18 million | - | [ICRA]A+ (Stable); reaffirmed and withdrawn |
| Proposed Term Loan | Rs. 165.00 crore | - | - |
| Non-Fund based Limits – Long Term/Short Term | Rs. 2.00 crore | Rs. 2.00 crore | [ICRA]A+ (Stable)/[ICRA]A1; reaffirmed |
| **Total** | **Rs. 491.00 crore + $3.18 million** | **Rs. 491.00 crore** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating action factors in ICRA's expectation that Apeejay Shipping Limited's (ASL) core operating profit will remain stable and the debt coverage indicators will be comfortable in FY2025 on the back of a favourable demand outlook for the bulk dry shipping industry. In FY2024, a moderation in global charter rates adversely impacted ASL's earnings with an estimated OPBIDTA of ~Rs. 150 crore compared to ~Rs. 392 crore in FY2023. The debt coverage indicators were also impacted with interest coverage and TD/OPBDITA estimated at ~3.7 times and 2.4 times, respectively, in FY2024 compared to the healthy levels of FY2023. Nonetheless, the overall financial risk profile remains comfortable with a continuous reduction in the total external debt position to ~Rs. 350 crore in FY2024 from ~Rs. 480 crore in FY2022.

ICRA notes that the company sold three old vessels in the last fiscal, which is expected to reduce the total earning days in the current fiscal. Nonetheless, a likely improvement in the charter rates and purchase of one vessel in FY2024 is expected to offset the revenue impact to an extent. While one old vessel will also be sold in FY2025, it will be replaced by a new vessel, thus mitigating the impact on earnings. The stable revenues are seen to keep the coverage indicators moderate but comfortable. In addition, a low loan-to-value (LTV) of its fleet at ~53% provides substantial financial flexibility. In addition, while the fortunes of the global dry bulk shipping industry are prone to economic cycles, the global bulk shipping industry's order book stands at less than ~6% of the current fleet. A limited supply pipeline is likely to keep the supply-demand situation balanced, supporting the rates in times of volatile global economic conditions. The outlook on domestic coastal shipping remains favourable, given the likely demand for coal from thermal power stations in the southern part of the country.

The ratings continue to favourably factor in ASL's established track record in the dry bulk shipping business for more than four decades and a healthy relationship with Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and Poompuhar Shipping Corporation (PSC) in coastal coal trade. ICRA has also noted the rapid deleveraging in the Group through the sale of its tea estates along with the IPO of the hotel business that has significantly reduced the Group's debt position and improved its financial flexibility.

ICRA also notes that large repayments are due for Apeejay Infralogistics Private Limited (AILPL, ASL's subsidiary) in FY2026, which would require refinancing and could provide a liquidity cushion, once finalised. Timely fruition of the same will remain a key rating sensitivity. The ratings also factor in the cyclicality inherent in the shipping business, which is further accentuated by ASL's segmental concentration in the dry bulk business as well as the company's relatively small scale of operations. In addition, large exposure, including loans and advances, to Apeejay Tea Panama (ATP, the erstwhile holding company of Typhoo operations in the UK), continues to impact the company's overall RoCE. ASL had made provisions of ~Rs. 198 crore in FY2023 for the loan outstanding of the Typhoo business. In case of any further provisioning/write-off of the same, ASL's cash flow will not be impacted. With the improvement in the charter rates, the company's cash flows are likely to remain comfortable, relative to its debt service requirements.

ICRA has withdrawn the long-term rating assigned to the term loan of $3.18 million at the request of the company and based on the no-dues certificate received from its lender, in line with ICRA's policy on the withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Vast experience in dry bulk shipping industry with established market position in coastal coal trade -** ASL has an extensive operating history, spanning more than five decades. ASL operates entirely in the dry bulk segment, with coal accounting for a significant portion of the total goods carried by the fleet. Two ships are under Surrendra Overseas Panama (SOP) and SOP2. Before the refinancing, the two ships were under SOP. However, as a part of the refinancing exercise, the two ships are now on the books of two separate entities. While these two ships mostly operate in international waters, the bulk of the domestic ships under ASL are largely involved in coastal coal trade, catering to the demand of TANGEDCO and PSC. ASL has a healthy relationship with PSC and TANGEDCO in coastal coal trade, where the charter rates have been historically at a premium to the market rates.

**Comfortable LTV and established relationship with banks provides considerable financial flexibility -** The total long-term loan-to-market value of the ships is around 40% at present. This provides considerable financial flexibility. In addition, the scrap value of the ships covers almost 90% of the total outstanding external debt, which also provides comfort. Also, ASL has established relationships with domestic and international banks with a demonstrated ability to refinance debt at attractive terms in the past, which provides comfort.

**Favourable outlook on dry bulk shipping** – ICRA expects a healthy performance for ASL in FY2025, given the uptick in the charter rates in the current fiscal on the back of a healthy demand environment in the dry bulk segment as the trade volumes pick up. With limited deliveries of new ships in the dry bulk segment, the demand for the existing ships is expected to remain healthy and support the upward price movement in charter rates.

**Significant reduction in Group's leverage, improving the overall financial profile -** Over the years, the stressed performance of Apeejay Tea Limited (ATL) as well as of the Typhoo operations (in the UK) has increased the Group's debt as the losses were largely funded by debt. ATL also sold majority of its gardens in FY2023 and significantly reduced its debt obligations. The IPO in the hotel business resulted in further deleveraging of the Group. Consequently, the Group's overall debt is estimated to have declined substantially in FY2024.

### Credit challenges

**Moderate leverage and coverage indicators -** In FY2024, the company's shipping business moderated with the OI being lower by 54% at ~Rs. 323 crore and the OPM at 46% against 55% reported in FY2023. The moderation was on account of lower charter rates during the year compared with the very high levels of FY2023. The lower profits weighed on the company's financial risk profile, with the interest cover estimated at 3.7x (vis-à-vis 9x in FY2023) and the TD/OPBITDA at 2.5x (vis-à-vis 1.1x in FY2023) in FY2024. However, the financial risk profile is likely to remain comfortable on expectations of stable revenue and profitability and will improve with the scheduled amortisation of debt in the medium term.

**Inherent cyclicality in shipping business, segmental concentration risk -** ASL remains exposed to segmental concentration risk as the dry bulk segment accounts for its entire operating income. However, the company being an established player in coastal trade, provides some comfort. In addition, the charter rates in the dry bulk segment remain comfortable owing to a tightness in the demand-supply situation. While the charter rates had moderated in FY2024, they have improved in the current fiscal to an extent and a limited additional supply of ships is likely to support the charter rates.

**Exposed to high client concentration risk -** The client concentration risk is high with three of the five ships on the books of standalone ASL deployed with TANGEDCO/PSC. As the coastal business has a higher working capital requirement, the higher number of ships deployed in that trade increases the overall working capital requirements of the company. However, ICRA notes that the logistics services provided by ASL remain critical for the smooth and continued operations of thermal power plants based in Tamil Nadu, thus providing comfort. In addition, given the scope of the global trade of bulk commodities, ASL has the option of deploying a higher number of ships in the sea-borne trade of coal and grains, reducing the client concentration risk.

## Liquidity position: Adequate

The liquidity of the company is adequate, as corroborated from a cushion of ~Rs. 37 crore as on March 31, 2024 in the working capital limits and free estimated cash and bank balances of ~Rs. 10 crore as on March 31, 2024. The average cushion of ~25% in the fund-based sanctioned limits for the six months ended March 2024 also provides comfort. The cash flow from operations is expected to remain adequate on expectation of healthy charter rates and profitability. ASL would be procuring one vessel in FY2025 for which the debt has been tied up.

## Rating sensitivities

**Positive factors –** Sustenance of robust charter rates, leading to a healthy improvement in the company's leverage and debt coverage indicators, and an enhanced liquidity position may lead to an upgrade.

**Negative factors -** Pressure on ASL's ratings may arise if the credit metrics and return indicators weaken owing to a substantial decline in charter rates. Any large support to the weaker Group entities may also lead to a negative rating action. Specific credit metrics for downgrade include total debt/OPBDITA (for consolidated shipping operations) of more than 2.0 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Shipping Industry<br>Policy on Withdrawal of Credit Ratings |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | While arriving at the ratings, ICRA has factored in the operational and financial risk profiles of Apeejay Shipping Limited along with its overseas shipping subsidiaries. In addition, the likely financial support to the other non-shipping subsidiaries has also been factored in. The details are given in Annexure - II |

## About the company

ASL (previously known as Surrendra Overseas Ltd.), incorporated in 1948, is involved in the bulk shipping business. At present, the company has a fleet of seven vessels, including two under its wholly-owned subsidiaries, SOP and SOP2, with a combined capacity of 0.47 million DWT. ASL is a part of the Kolkata-based Apeejay Surrendra Group, which has interests in tea, hospitality, retail and real estate, in addition to shipping.

### Key financial indicators (audited)

| ASL | Consolidated* | | |
|---|---|---|---|
| | FY2022 | FY2023 | FY2024 Est.** |
| **Operating income** | 419 | 628 | 323 |
| **PAT** | 152 | 80 | 3 |
| **OPBDIT/OI** | 64% | 62.0% | 46.0% |
| **PAT/OI** | 36.3% | 12.7% | 1.0% |
| **Total outside liabilities/Tangible net worth (times)** | 0.9 | 0.6 | 0.5 |
| **Total debt/OPBDIT (times)** | 2.2 | 1.1 | 2.4 |
| **Interest coverage (times)** | 5.3 | 9.1 | 3.7 |

*Source: Company, ICRA Research; * Consolidated shipping operations, consolidated by ICRA; **Estimated; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2025) | | | | Chronology of rating history for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding* (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | | Date & rating in FY2023 | Date & rating in FY2022 | |
| | | | | | Jun 25, 2024 | Apr 21, 2023 | Apr 06, 2023 | Jul 07, 2022 | Nov 9, 2021 | May 3, 2021 |
| 1 | **Cash credit** | Long term | Rs. 55.00 crore | Rs. 18.12 crore | **[ICRA]A+ (Stable)** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) | [ICRA]A (Stable) | [ICRA]A (Negative) |
| 2 | **Term loan/WCTL** | Long term | Rs. 434.00 crore | Rs. 241 crore | **[ICRA]A+ (Stable)** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) | [ICRA]A (Stable) | [ICRA]A (Negative) |
| 3 | **Fund based limits – Term loan** | Long term | $3.18 million | - | **[ICRA]A+ (Stable); withdrawn** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) | [ICRA]A (Stable) | [ICRA]A (Negative) |
| 4 | **Non-fund based limits** | Long term | - | - | **-** | - | - | - | - | [ICRA]A (Negative) |
| 5 | **Fund-based limits – Short-term loan** | Short term | - | - | **-** | - | [ICRA]A1 | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ |
| 6 | **Non-fund based limits** | Long term/Short term | Rs. 2.00 crore | - | **[ICRA]A+ (Stable)/ [ICRA]A1** | [ICRA]A+ (Stable)/ [ICRA]A1 | [ICRA]A+ (Stable)/ [ICRA]A1 | [ICRA]A (Positive)/[ICRA]A2+ | [ICRA]A (Stable)/[ICRA]A2+ | [ICRA]A (Negative)/ [ICRA]A2+ |
| 7 | **Proposed term loan** | Long Term | - | - | **-** | [ICRA]A+ (Stable) | - | - | - | - |

**as on March 31, 2024*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Fund-based limits – Cash credit** | Simple |
| **Fund-based limits – Term loan/WCTL** | Simple |
| **Non-fund based limits – Long term/Short term** | Very Simple |

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 | Fund-based Limits – Cash credit | - | - | - | 55.00 | [ICRA]A+ (Stable) |
| NA | Fund-based limits – Term loan/WCTL | - | Ranging between 5.5% and 9.3% | Upto FY2030 | 434.00 | [ICRA]A+ (Stable) |
| NA | Fund-based Limits – Term Loan | - | - | - | $3.18 million | [ICRA]A+ (Stable); withdrawn |
| NA | Non-fund based limits | - | - | - | 2.00 | [ICRA]A+ (Stable)/ [ICRA]A1 |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Surrendra Overseas (Panama) Inc | 100.00% | Full Consolidation |
| SOP2 | 100.00% | Full Consolidation |
| Surrendra Overseas (Singapore) Pte Limited | 100.00% | Full Consolidation |
| Bengal Shipyard Limited | 93.75% | Limited Consolidation |
| Apeejay Infra-Logistics Private Limited (AILPL) | 99.00% | Limited Consolidation |
| Apeejay Logistics Park Private Limited (wholly-owned subsidiary of AILPL) | 99.00% | Limited Consolidation |
| Oceanic Shipyard Limited | 93.75% | Limited Consolidation |

*Source: Annual report FY2023*

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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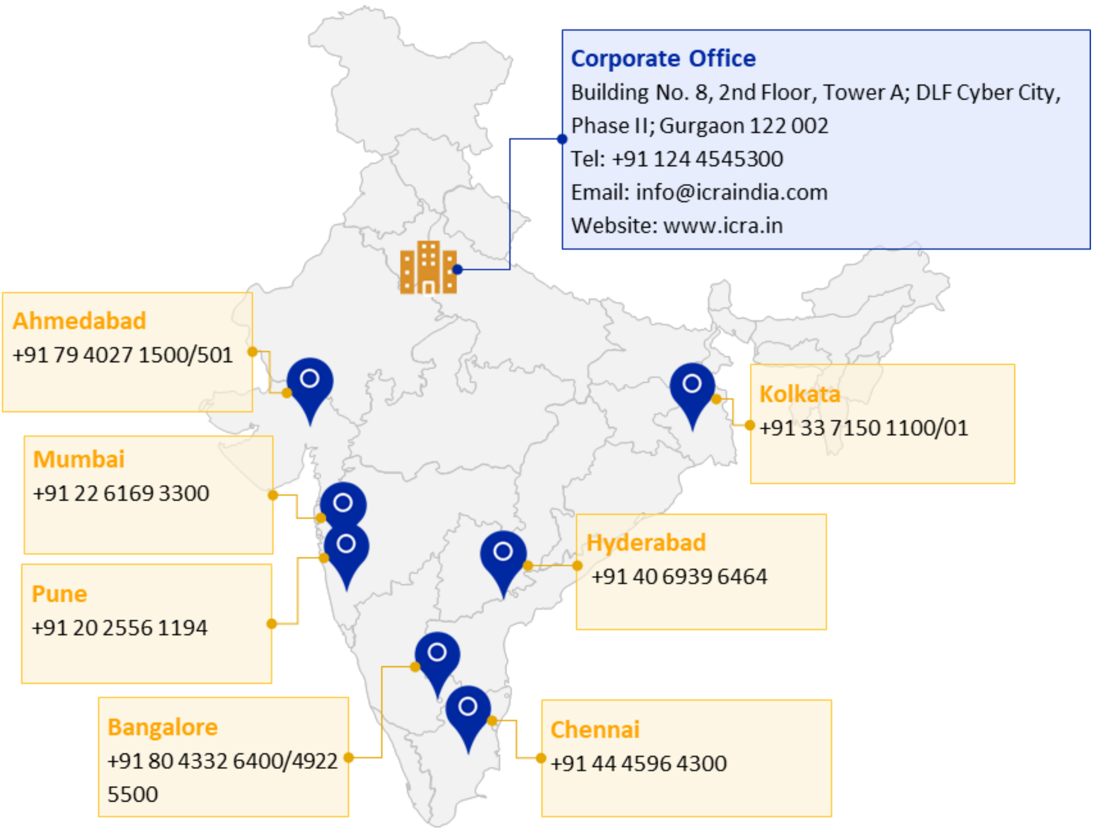




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