

## Sanmar Shipping Limited

October 04, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	354.79 (Enhanced from 302.52)	CARE A; Stable (Single A; Outlook: Stable )	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Long Term / Short Term Bank Facilities	15.00 (Reduced from 75.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One )	Revised from CARE A-; Positive / CARE A2+ (Single A Minus ; Outlook: Positive / A Two Plus)
Short Term Bank Facilities	180.00 (Enhanced from 140.00)	CARE A1 (A One )	Revised from CARE A2+ (A Two Plus)
<b>Total Bank Facilities</b>	<b>549.79</b> <b>(₹ Five Hundred Forty-Nine</b> <b>Core and Seventy-Nine</b> <b>Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

#### Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Sanmar Shipping Limited (SSL) factors in the favourable charter rate outlook for the product segment in the near term which is expected to bolster profitability and debt protection indicators of SSL during FY23(FY refers to the period April 1 to March 31). The charters rates for the tankers, during the period 4MFY23, have surged by approx. 3x-4x over 4MFY22 led by dislocation of fleet due to Russia-Ukraine war as well demand-supply imbalance in the product tanker segment. The rates are likely to remain favourable in the medium term with limited supply of new ships given the tanker order book is at historical low level and capacity utilization of shipyards at higher levels. Thus, the profitability and liquidity is expected to remain strong. The same has been corroborated by strengthening of Shipping PBILDT margins of SSL from 24% during Q1FY22 to 46% during Q1FY23.

Ratings revision also factor significant reduction in group debt and turnaround in the business performance of TCI Sanmar Chemicals S.A.E (TCI). In light of such developments, any additional funding support to group is not likely to be extended from SSL. The ratings continue to derive strength from the established track record of operations in shipping industry, experienced management team, low counterparty risk with reputed clientele, long standing relationship with major players in Oil and Petrochemical industry.

The rating strengths are, however, tempered by the cyclical nature of the shipping industry, revenue profile susceptible to volatility in charter rates, sizeable advances extended to group entities.

#### Rating sensitivities

##### Positive Factors

- Growth in the scale of operations with increase in fleet size while significantly improving leverage indicators

##### Negative Factors

- Any major debt funded capex resulting in increase in net overall gearing
- Significant decline in charter rates impacting operating profit margin and return indicators on sustained basis.
- Extending further investments/advances to group companies thereby materially impacting the adjusted leverage

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Detailed description of the key rating drivers****Key Rating Strengths****Favorable outlook on charter rates to bolster profitability and leverage**

The charter rates for crude and product tankers remained low in FY22 with crude and petrol trade remaining at lower than pre pandemic levels. This led to deterioration in shipping PBILDT margins of SSL from 43.59% during FY21 to 19.09% during FY22. Nevertheless, Russia/Ukraine war has caused a great deal of fleet dislocation leading to higher tonne-mile demand and thereby increase the charter rates. The demand resurgence post covid-19 pandemic has also aided the charter rates. charter rates for the tankers, during the period 4MFY23, have surged by approx. 3x-4x over 4MFY22 leading to strengthening of PBILDT margins from 24% during Q1FY22 to 46% during Q1FY23. The order book of the shipyards to operation fleet of the shipping entities has been at historic lows at around 5%. With lower order book and no additional capacity available at Shipyards for building tankers, the overall charter rates in the tanker segment are expected to remain robust. This augur well for the sustenance of healthy profitability in FY23 and significant improvement in the net debt /PBILDT.

**Part of the Sanmar group**

SSL is a part of the Sanmar Group of Companies, one of the largest industrial groups of South India. SSL is a part of the Sanmar Group of Companies, one of the largest industrial groups of South India. The group has been owned by the same business family (currently into the fourth generation) since its foundation which has provided for stability and continuity in policies and decision making. SSL operates under the leadership of Mr. C V Subbarao, the Managing Director of the SSL. The top management is supported by a well experienced team across functions like ship procurement, ship deployment in pools, finance and regulatory affairs etc. By virtue of being part of the Sanmar group, the company benefits from the established banking/treasury functions.

**Established track record of the company and strong counterparties**

SSL has been in operations for over 28 years and has developed relations with reputed pool managers and majors in oil marketing and petrochemical industries. This is reflected from the timely renewal of contracts over the last few years and almost 100% operating efficiency of the fleets. The reputed clientele results in low counter party risk, demonstrated through satisfactory collections and recovery of debtors within and average of 45 days in the shipping segment.

**Diversified contracts entered, albeit concentration on product tanker**

SSL has been gradually increasing the fleet size over the last few years and at present operates 10 vessels of which 8 are product tankers and two are gas carrier. Of the total fleet size, five ships are under spot charter, two ships are under pool management, and three ships are under time charter, offering diversification in terms of type of contract, protecting the company from volatility in rates to an extent. As a strategy, the company ensures that the ships are deployed among voyage, time charter or pool management and are not confined to a single segment.

**Key Rating Weaknesses****Cyclical and regulated nature of shipping industry**

The performance of shipping industry is directly linked to global trade flows. During the times of macroeconomic growth, the demand for vessels increased leading to higher charter rates translating into higher profits for ship operators. On the contrary, in economic downturn, the demand for vessels dip causing lower charter rates. The company is exposed to the regulations from both domestic and international agencies and has to undergo regular capex to comply with the regulations.

**Exposure to group company**

During the last three years SSL has extended advances to the group company amounting to Rs.341 crore (as on March 31, 2022), of which Rs.101 crore was advanced during FY22. This constituted 61% of networth of SSL as on March 31, 2022. Adjusted gearing as on March 31, 2022 stood at 2.89 times and adjusted net gearing stood at 1.86 times as on March 31, 2022. There has been significant turnaround in performance of group companies. The restructuring of TCI Sanmar Chemicals S.A.E. has been completed now and the performance of the said entity has also turned around. The liquidity profile of the other group entities is also comfortable with low leverage and self-sufficient operations. In view of such developments, the management has

articulated no additional support may be required towards the group, going forward. Any further investments resulting in material impact on adjusted leverage shall be key rating monitorable.

SSL will continue to act as procuring arm for the chemical business and will be importing the raw materials for chemical business entities based on their requirement. The imports are backed by usance Letter of Credit and credit is extended by SSL to group entities for which trading is undertaken. Thus, such trading activity results in non-fund based working capital (Letter of Credit) requirement.

#### **Liquidity: Adequate**

The cash accrual generation is expected to adequately cover the scheduled repayment obligation of Rs.111 crore for FY23. Besides, the company has against surplus liquid funds of Rs.240 crore as on August 31, 2022 (Rs.203 crore as on March 31, 2022). The company has sanctioned working capital limits of Rs.30 crore however the CC utilization has been nil in the past 12 months ending July 22.

#### **Analytical approach**

Standalone. Factoring in linkages with the Sanmar group

#### **Applicable criteria**

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

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#### **About the company**

Sanmar Shipping Limited (SSL) is part of the Chennai based Sanmar Group which has presence in Chemicals, Metals, Engineering and Shipping business. SSL was established in 1994 as a division of Chemplast Sanmar Ltd and it became a separate company in 1998 under current nomenclature. SSL is 91.5% held by Sanmar Consolidations Private Limited (SCL) and its nominees. The company has a fleet of 10 ships which includes eight product tankers and two gas tanker with an aggregate DWT capacity of 5.93 lakh tonnes. The ships are deployed for coastal shipping and international voyages catering to oil majors and petrochemical companies for transporting refined petroleum and petro products.

<b>Brief Financials (Rs. crore)</b>	<b>FY21 (A)</b>	<b>FY22 (A)</b>	<b>Q1FY23(UA)</b>
Total operating income	1,103	1,138	342
PBILDT	253	107	111
PAT	151	(4)	NA
Overall gearing (times)	1.12	1.12	NA
Interest coverage (times)	11.82	2.52	NA

A: Audited; U/A – Unaudited, NA – Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (MM-YY)	Coupon Rate (%)	Maturity Date (MM-YY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	May-2029	339.79	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE A; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	180.00	CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	15.00	CARE A; Stable / CARE A1

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	339.79	CARE A; Stable	-	1)CARE A-; Positive (26-Aug-21)	1)CARE A-; Stable (30-Dec-20) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Positive (19-Nov-19) 2)CARE A-; Stable (17-Jun-19) 3)CARE A-; Stable (05-Apr-19)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE A; Stable	-	1)CARE A-; Positive (26-Aug-21)	1)CARE A-; Stable (30-Dec-20) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Positive (19-Nov-19) 2)CARE A-; Stable (17-Jun-19) 3)CARE A-; Stable (05-Apr-19)
3	Non-fund-based - ST-ILC/FLC	ST	180.00	CARE A1	-	1)CARE A2+ (26-Aug-21)	1)CARE A2+ (07-Jan-21)	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	15.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (26-Aug-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**

#### Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-ILC/FLC	Simple
4	Term Loan-Long Term	Simple

#### Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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#### About us:

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