January 15, 2014

CARE WITHDRAWS THE RATING ASSIGNED TO THE CP AND REVISES THE RATINGS ASSIGNED TO THE NCD AND BANK FACILITIES OF ESSAR SHIPPING LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	617.96	CARE BB [Double B]	Revised from CARE A [Single A]
Non-Convertible Debentures	739.50	CARE BB [Double B]	Revised from CARE A [Single A]
Commercial Paper	-	Withdrawn	-

Rating Rationale

The revision in rating takes into consideration deterioration in financial profile of the company as reflected by declining profitability, unfavourable industry scenario and weakening of credit profile of one of the major customers - Essar Steel India Limited (ESIL).All these factors have impacted the debt coverage indicators of ESL. The rating also takes into account high gearing level in the consolidated businessand the inherently cyclical nature of shipping industry.

The ratings derive strength from ESL's experienced management, long track record of operations and its diversified presence across dry bulk and tanker segments.

ESL's ability to see through the industry wide slowdown by deploying its fleet in long term contracts at viable rates and improvement in performance of businesses undertaken by the subsidiaries are the key rating sensitivities.

CARE has withdrawn the rating assigned to the Commercial Paper issue of Essar Shipping Limited with immediate effect, as the company has fully repaid the amounts under the said issue and there is no amount outstanding under the issue as on date.

Background

Essar Shipping Limited (ESL) was formed in May 2011, as part of the restructuring of Essar group's ports and shipping business which was hitherto carried out under a common company viz Essar Shipping Ports & Logistics Limited (ESPLL, incorporated in 2008). As per the demerger scheme, the Shipping, Oilfields & Logistics businesses were hived off into a separate entity viz. Essar Shipping Limited while ESPLL was renamed as Essar Ports Limited (EPL) to look after port business of the group. The demerger scheme was effective from October 01, 2010.

As on December 1, 2013, ESL owned 24 vessels including VLCCs, mini-bulk carriers, Supramaxes, tugs and cape-sizes to provide crude oil and product transportation services, having an aggregate Dead Weight Tonnage (DWT) of 1.98 million DWT. In its oilfields services business, ESL has 1 semi-submersible offshore rig (wildcat) and 14 land rigs. In its logistics business, ESL operates its own transshipment assets such as tugs, barges etc.

On a standalone basis, ESL posted a net loss Rs.93 crore on a total income of Rs.1553crore during FY13 (refers to period from April 1, 2012 to March 31, 2013) as compared to a PAT of Rs.96 crore on a total income of Rs.1303 crore. Further, during H1FY14, EPL posted a net loss of Rs.18 crore on a total income of Rs.503 crore.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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