

Apeejay Group Bets Big on Shipping Biz

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With global seaborne dry bulk trade expected to gain momentum in the next few years, Apeejay Surrendra group is betting big on its shipping business. Group firm Apeejay Shipping has just bought ships hauling coal, iron ore and grains. It is also looking to foray into tanker, dredging or the OSV segment as business propositions in these segments improves.

The company presently operates only in the dry bulk cargo segment. Unlisted and held by the group's investment arms, Apeejay Shipping is the significant contributor to the cash flows presently. Although earnings from shipping business to the

group's total turnover is presently not more than 10-15 % owing to depressed market conditions and network ₹ 880 crore approximately, fleet enhancement as well as foray into new lines of business is expected to improve earnings and network substantially.

Company officials said the business could contribute as much as 40% to the group's total turnover of ₹ 1,800 crore. The group's total network is currently over ₹ 6,000 crore.

Credit rating agency Icria recently reaffirmed the AA- rating assigned to Apeejay Shipping's term loans, fund based bank limits and non-fund based bank limits. The Icria report states that the ratings takes into account the company's track record in the dry bulk shipping business, its

healthy financial profile and comfortable liquidity position supported by a large portfolio of liquid investments which generates substantial non-operating income that adds stability to the cyclical cash flows from the core shipping business.

Speaking to ET on the company's plans to expand fleet, Apeejay Surrendra group chairman Karan Paul said the company has acquired two gearless Panamax bulkers for \$20.8 million (approx. ₹ 130 crore) with plans to buy one more by March 2014.

Post-acquisition, the company now has eight ships in its fleet with 4.84 lakh deadweight-ton (DWT) capacity. Average age of the company's fleet is 11.88. The acquisitions have been financed by a mix of debt and equity. The

company's debt-equity ratio is 0.45:1.

Elaborating further Paul said: "Growth in Indian imports of thermal coal, by way of planned addition of about 70 GW power generation till 2017 coupled with increased demand for iron ore will add substantially to our revenues from coal and iron ore hauls."

"While shipping is slowly overcoming the huge surplus overhang on the supply side, we expect demand to out pace fleet growth by 2014 when dry bulk shipping should see a meaningful and significant recovery of rates," he added. The two bulkers were purchased at a lower price and the third one, for which the company is in talks, will also be bought at a low price to balance

capital cost.

On the company's foray into tanker, dredging or the OSV segment, Paul said: "We will enter the tanker, dredgers or OSVs segment only in partnership and seek funds from private equity investors. Although we are looking at opportunities in other business segments, we feel that presently opportunity in bulk trade is more."

Incidentally, shipping business appears to be improving in terms of freight rates. The Baltic Dry Index, a measure of costs to ship iron ore, coal and grains, more than doubled to 1,581 this year, rebounding from the lowest annual average since at least 1993, according to the Baltic Exchange, the London-based publisher of freight rates.