

Title: Parliamentary panel fears Shipping Corporation of India may become another Air India

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MUMBAI: The parliamentary standing committee on transport has raised serious concerns about the future of the Shipping Corporation of IndiaBSE -0.55 % (SCI), saying the company is likely to share the fate of Air India, unless it cuts costs and is run in a professional manner. SCI, India's largest shipping company by fleet size, slipped into the red in the previous fiscal. For the financial year ended March 31, 2012, the company posted a record net loss of Rs 428 crore, against a net profit of Rs 567 crore in the previous year, largely due to low charter rates and high interest costs. The standing committee expressed concerns about the company's massive spending on vessel acquisition between 2007 and 2012 when prices were at an all-time high. The company had planned to spend close to Rs 14,000 crore for the acquisition of 62 vessels and placed orders for 45 so far. SCI has spent Rs 7,000-8,000 crore for buying ships, according to company officials. Subsequently, the shipping ministry asked the company to go slow on its acquisitions.

In its report, the standing committee has pointed out that the company had placed orders only because at that time it had sufficient resources available for large-scale procurement. The company did not need these ships, the standing committee said. SCI's auditors had also rapped the company for its failure to keep proper records of the transactions relating to expense and revenue. The panel has recommended that SCI put on hold all its vessel acquisitions until the company is capable of bearing the liability. SCI's director in charge for vessel acquisition, AK Gupta told ET that the company's net worth has not been eroded much and that the current debt-to-equity ratio is still under control. "We are not in a bad position as projected to be. Things are bad, but that is the general trend in the industry," said Gupta.

The standing committee's report comes at a time when shipping companies across the globe have been struggling with low charter rates due to a drop in cargo volumes and an excess supply of vessels, leading to a demand-supply mismatch. Experts have also been questioning SCI's move to acquire a number of vessels during a period in which vessel prices were high.

"SCI went ahead with its capacity addition at a time when many of the private shipyards were cancelling their orders due to high costs. The company could have planned its vessel acquisition plan in a better way," said Anand Sharma, director at Mumbai-based Mantrana Maritime Advisory.

Private shipping companies, including Great Eastern Shipping and Essar Shipping, have been able to withstand the crisis and have recorded profits during the period. S Hajara, who headed the company during the period, was not available to comment on the concerns raised by the committee. The standing committee has also said that the company can only survive if it is provided with a clear vision, appropriate strategy and professionalism. SCI is due to have a new chairman and managing director this year after Hajara retired in December last year.

The report also said that SCI's financial health has deteriorated to such an extent that the company's liabilities are expected to overtake its assets soon. "The committee observed that the loan liability of SCI has increased from Rs 6,322.9 crore to Rs 8,725.9 crore in 2012-13 and the total liabilities may overtake the assets of the company within a short span of time," said the report. SCI is currently the largest shipping company in the country and accounts for one-third of the cargo carried by ships in the country.

While domestic shipping companies had diversified into allied sectors, including providing offshore support vessels, which caters to the oil and gas industry, after the slowdown, SCI was a late entrant into the lucrative offshore segment. Hajara, the former chairman, had admitted the company was late in entering the offshore sector and was looking for tie ups with oil and gas explorer ONGC to provide long-term contracts.