The Great Eastern Shipping Company Limited (Revised)

July 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	50.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	**50.00 (₹ Fifty crore only)**		
Non-convertible debentures	200.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	400.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	400.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	100.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	150.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	**2,350.00 (₹ Two thousand three hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of The Great Eastern Shipping Company Limited (GESCO) continue to derive strength from the long-standing presence of close to seven decades in the shipping business, demonstrated track record of operations across various business cycles, extensive experience of promoters, diversified fleet with low average age of vessels, strong market position with presence across the product, crude, liquefied petroleum gas (LPG), and bulk segment, low counterparty risk with reputed clientele, robust capital structure with low debt addition in past few years, prudent risk management policies and treasury function, and a strong liquidity position.

The ratings also factor in continued satisfactory performance reported during FY22 (refers to the period April 01 to March 31) with revenue growth of 6% in core shipping business and comfortable earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin and return indicators. Significant increase in dry bulk charter rates (y-o-y growth of about 148% in FY22) compensated for the moderation in rates in the tanker segment (y-o-y decline of 53% in crude segment and 33% in the product segment), thereby enabling the revenue growth. The industry outlook for the medium term is also expected to remain favourable with rise in the charter rates for the product/crude segment as well as stronger charter rates for bulk segment, although the same has declined from the peak levels witnessed in FY22.

The rating strengths are tempered by the risk associated with volatility in charter rates considering nearly 80% of its fleet is deployed on spot basis and inherent cyclical nature and regulatory risk related to the shipping industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Debt-free position of the company on a sustained manner.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex/acquisition impacting financial risk profile with overall gearing beyond 0.75 times.
- Any additional extension of financial support to group companies.
- Moderation in the liquidity position of the company on a sustained manner

Detailed description of the key rating drivers

Key Rating Strengths

Strong market position and established track record: GESCO is the largest private shipping company in India and is promoted by the Sheth brothers and Bhiwandiwallas. Over its presence of seven decades, the company has a demonstrated track record of operating across business cycles. It has developed a strong clientele with major counterparties being the reputed charterers in oil and gas industry as well as major commodity traders.

The company is managed by well-qualified professionals with K.M. Sheth (Chairman), the second generation of Sheth family, representing the Board of Directors. The board comprises adequate mix of executive and non-executive/independent directors ((10 out of 15 directors are Non-Executive - Independent Director), thereby reflecting prudent corporate governance practice.

Diversified fleet with low average age of vessels: GESCO has a strong market presence with well-diversified and large fleet of vessels comprising tankers, product/ gas carriers and dry bulk carriers. As on March 31, 2022, the company owns and operates 45 vessels with deadweight tonnage (DWT) of 3.57 million and average age of fleets as 12.65 years. The company historically has been operating a fleet of young ships which gives it the competitive advantage and reduces associated costs. The fleet holding since last few years is as follows-

	FY17	FY18	FY19	FY20	FY21	FY22
Fleet Nos.	42	49	47	46	46	45
DWT (million)	3.38	3.97	3.84	3.69	3.66	3.57
Average age	9.68	11.33	11.44	12.20	12.02	12.65

About 60% of the fleet capacity (in terms of DWT) operates in petrol/crude tanker segment, 6% in gas tanker segment and the rest 34% in dry bulk segment. The company also operates offshore business through its wholly-owned subsidiary, Greatship India Limited (GIL). GIL has four jack-up rigs and 18 offshore-support vessels.

Satisfactory financial performance during FY22: The overall financial performance continued to remain satisfactory in FY22. The income from shipping business has grown by about 6% in FY22 over FY21, led by increase in the earnings from dry bulk segment. The dry bulk rates started rising from Q4FY21 and rallied during FY22 with increase in the rates by about 148% in FY22 (from 10,907 USD/day in FY21 to 26,995 in FY22). On the other hand, the average prices in the crude, product carrier and LPG segments declined by 53%, 33% and 2%, respectively. The lower charter prices in tanker segment were compensated by increased in the charter rates in the dry bulk segment resulting in stable EBITDA of 45.37% in FY22 as against 45.31% in FY20. The return on capital employed (ROCE) stood moderate at 11.63% in FY22.

Robust financial position and prudent risk management policies: The company has a favourable capital structure with low debt addition over the past few years. The leverage position has been comfortable with overall gearing at 0.61x (0.07x on net debt basis) as on March 31, 2022. Over the past few years, there has been relatively lower fleet addition, and the company envisages to continue with its conservative leverage policy with no major debt-funded asset addition planned in the near term. With strong accruals reported, the debt coverage metrics have been comfortable. GESCO has provided Letter of comfort for bullet debt obligation of subsidiary company; GIL, in FY25 amounting to ~$97 million. CARE factors in strong cash position of the company and expected sustainability for maintaining the same in assessment of overall financial risk profile. Hence, no support is expected from GESCO to subsidiary GIL.

The company has prudent risk management policies covering forex, treasury and liquidity management, given its presence in highly cyclical industry. While the earnings and expenses are both in foreign currency, thereby providing natural hedge, a large part of liability (69% of borrowings as on March 31, 2022) is in the domestic currency (INR). To mitigate the forex risk, the company through interest rate swaps and forward contracts has formed synthetic fixed rate USD loans. By entering currency swap, the company reports Mark to Market (MTM) changes which are routed through profit and loss account (actual settlements and cash outflows incur at time of maturity) and during FY22, GESCO has reported a MTM gain of ₹90 crore.

Furthermore, GESCO has also provided Letter of comfort for bullet debt obligation of subsidiary company. Greatship India Limited (GIL), in FY25 amounting to around US $97 million. CARE Ratings factors in strong cash position of the company and expected sustainability for maintaining the same in assessment of overall financial risk profile. Hence, no support is expected from GESCO to subsidiary GIL.

Liquidity: Strong

The cash accrual generation comfortably covers the debt servicing obligation of the company, It is expected to generate gross cash accruals (GCA) of around ₹1,000 crore against debt servicing obligation of ₹459 crore over the next one year. GESCO has a well-defined liquidity policy whereby it maintains cash and cash equivalent to meet next three years' debt servicing, capital commitments, dry docking expenses and dividend payments plus US$100 million cash minus next 3 years EBIDTA which is calculated based on 20 years lowest freight rates. A stress test is conducted on a quarterly basis to ensure adherence to the policy framework.

As on Mar.31, 2022, the liquid funds stood over ~Rs.3,000 crore (as against Rs.3,090 crore as on Mar.31, 2021). GESCO maintains liquidity in the form of dollar denominated FDs, bank deposits or liquid funds. The working capital cycle is also lean with recovery of bills within 25 days.

Key Rating Weaknesses

Profitability susceptible to fluctuation in charter prices: GESCO has, over the past few years, moved from time charter (assured long term agreements) to spot market operation resulting in deployment of almost 80% vessels on spot rate and balance 20% on time charter basis (mostly LPG carriers). The strategy of the company regarding the fleet mix is to keep majority of its capacity open to take advantage of strong markets. While it has gained in the past few years on account of this high operating leverage and low financial leverage, the risk associated with adverse movement in charter rates is on the higher side as seen during FY19-Q1FY20, resulting in loss for the company. In FY22 also, while the product/crude carrier rates crashed by almost 30%-50%, the same was compensated by the rise in bulk rates thereby supporting revenue/profit for the year.

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.

During FY22, the freight rates in dry bulk segment reached multiple highs due to the pent-up demand and supply chain congestions at ports caused by COVID-19 pandemic. Though the prices have come down during FY23, it is expected to remain above pre-COVID levels in the medium term due to continued port congestion.

The freight rates for crude and product tankers remained low in FY22 (after surging in April 2020 due to strong demand for crude storage) with crude and petrol trade remaining below pre-COVID levels. Russia/Ukraine war has caused a great deal of fleet dislocation which has led to spike in the tanker earnings since February 2022, the rates have doubled over FY22 level. With demand for tankers recovering to pre-pandemic levels and growing at a decent pace, tanker rates are expected to see recovery in FY23. Nevertheless, any negative impact on the demand due to higher inflation would lead to demand destruction and fall in in charter rates.

Analytical approach:

Standalone. Additionally, CARE Ratings has factored in Letter of Comfort provided by the company to its subsidiary, ie, Greatship India Limited (GIL) towards bullet repayment of term obligation payable in FY25. Furthermore, CARE Ratings understands that the subsidiary in offshore business segment (GIL) would not seek financial support for debt repayment from the parent company (i.e., GESCO).

Applicable Criteria

Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Shipping
Short Term Instruments
Policy on default recognition

About the Company

Established on August 03, 1948, The Great Eastern Shipping Company Limited (GESCO) is the largest private shipping company in India on tonnage basis. The company has a fleet of 45 ships, of which 31 are tankers and 14 are dry bulk carriers with an aggregate capacity of 35.74 lakh DWT. The company also has presence in offshore oilfield services through its 100% owned subsidiary, Greatship (India) Limited. GESCO was founded by two families, the Sheths and the Bhiwandiwallas, and the promoters hold 29.77% shareholding as on March 31, 2022.

Brief Financials (₹ crore)	FY20(A)	FY21(A)	FY22(Abridged)
Total operating income	2,949	2,674	2,905
PBILDT	1,267	1,212	1,318
PAT	281	1,030	812
Overall gearing (times)	0.71	0.61	0.52
Interest coverage (times)	3.99	5.33	4.77

A: Audited;

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	50	CARE AA+; Stable / CARE A1+
Debentures-Non-convertible debentures	INE017A08185	6-Jan-11	9.70%	6-Jan-23	100	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08193	18-Jan-11	9.70%	18-Jan-23	100	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08235	6-May-16	8.70%	6-May-26	250	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08243	31-May-16	8.70%	31-May-25	250	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08250	10-Nov-16	8.24%	10-Nov-25	200	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08268	10-Nov-16	8.24%	10-Nov-26	200	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08276	18-Jan-17	7.99%	18-Jan-24	250	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08284	18-Jan-17	7.99%	18-Jan-25	250	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A08292	25-May-17	8.25%	25-May-27	150	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A07542	31-Aug-17	8.05%	31-Aug-24	150	CARE AA+; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE017A07559	12-Apr-18	8.85%	12-Apr-28	300	CARE AA+; Stable
Debentures-Non-convertible debentures	INE017A07567	02-Nov-20	8.05%	02-Nov-28	150	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)
2	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)
3	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (05-Jul-19)
4	Debentures-Non-convertible debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
5	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (05-Jul-21)	1)CARE AA+; Stable / CARE A1+ (06-Jul-20)	1)CARE AA+; Stable / CARE A1+ (05-Jul-19)
6	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
7	Debentures-Non-convertible debentures	LT	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
8	Debentures-Non-convertible debentures	LT	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
9	Debentures-Non-convertible debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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
10	Debentures-Non-convertible debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
11	Debentures-Non-convertible debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)
12	Debentures-Non-convertible debentures	LT	150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jul-21)	1)CARE AA+; Stable (27-Oct-20)	-

*Long Term / Short Term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Non-fund-based - LT/ ST-Bank guarantee	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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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