

## The Great Eastern Shipping Company Limited

July 05, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating *	Rating Action
Long Term Instruments--Non-Convertible Debentures	2,350.00 (reduced from 2,650.00)	<b>CARE AA+; Stable (Double A Plus; Outlook: Stable)</b>	Reaffirmed
<b>Total</b>	<b>2,350.00 (Rs. Two thousand three hundred and fifty crore)</b>		
Bank Facilities-Non-Fund Based - LT/ST-Bank Guarantees	50.00	<b>CARE AA+; Stable/CARE A1+ (Double A Plus; Stable/ A One Plus)</b>	Reaffirmed
<b>Total</b>	<b>50.00 (Rs. Fifty crore)</b>		

\*Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to instruments and bank facilities of The Great Eastern Shipping Company Limited (GESCO) continues to derive strength from well-established promoters having extensive experience in shipping industry, diversified fleet with low average age of vessels, reputed clientele, healthy financial risk profile & debt coverage indicators combined with prudent risk management policies and strong liquidity position.

Despite heightened volatility in the markets, the charter rates achieved during FY21 (refers period April 01 to March 31) were on an average, broadly similar to the levels of FY20, with some variations between categories of ships.

PBILD level increased in FY21 as compared to FY20 on account of effective cost management. Consequently, interest coverage ratio increased to 6.66 times in FY21 as compared to 3.36 times in FY20.

However, the aforementioned rating strengths are partially offset by volatility in charter rates considering nearly 70% its fleet is deployed on spot basis; rapidly varying foreign exchange rates, inherent cyclical nature and regulatory risk related to shipping industry.

### Rating Sensitivities

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

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

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Well established promoters having extensive experience in shipping industry***

GESCO is leading private shipping company in India is promoted by Sheth brothers and Bhiwandiwallas. In 1948, the company commenced operations with acquisition of two vessels. Mr. Vasant J. Sheth (representing Sheth family) spearheaded the operations of the company. He was financially supported by Mr. Ardeshir H. Bhiwandiwalla, who was first Chairman of the company from 1948-1973. Currently, Mr. K.M. Sheth the first generation of Sheth family is the Chairman of the Board of Directors of the company. The day-to-day operations of the company as overlooked by a team of qualified and experienced personnel headed by Mr. Bharat K. Sheth. GESCO has been operational for more than seven decades thereby strengthening its presence in the shipping industry.

***Diversified fleet with low average age of vessels in shipping business***

GESCO operates in shipping and offshore business. The offshore business is undertaken through its wholly owned subsidiary.

***Shipping:***

The company continues to have a well-diversified fleet of vessels comprising tankers, product and gas carriers as well as dry bulk carriers. As on March 31, 2021 it owned and operated 45 vessels with Deadweight Tonnage (DWT) of 3.63 mn having average age of 13.15 years as compared to 46 vessels with DWT of 3.70 mn having average age of 12.20 years in the previous year. These vessels are utilized towards transportation of oil & gas, iron ore, coal and etc. across countries. Prominent players are from Oil & Gas and commodity trading industry.

During FY22, the company sold an old Gas carrier and purchased a dry bulk carrier and gas carrier. As on June 30, 2021 the company incurred capital expenditure to tune of Rs.300 crore funded through bank loan of Rs. 161 crore and balance through internal accruals.

***Offshore:***

GESCO operates offshore business through Greatship India Limited (GIL) and its subsidiaries. GIL has 4 jack-up rigs and 19 offshore-support vessels (eight anchor-handling tug-cum-supply vessels, four platform supply vessels, two multi-purpose platform supply and support vessels and five remotely operated, vehicle-support vessels). Average age of the offshore support vessels and rigs (around 10.7 years as on March 31, 2021).

***Healthy financial risk profile and debt coverage indicators***

GESCO debt profile comprises of term borrowing towards funding of vessels. The term borrowings of the company comprise of Non-Convertible Debentures (around 70%) and balance is bank loan. Overall gearing ratio of the company improved from 0.71 times as on March 31, 2020 to 0.53 times as on March 31, 2021. During Q1FY22 the company acquired two vessels funded through external borrowings and internal accruals. TOL/TNW of the company improved from 0.97 times as on March 31, 2020 to 0.77 times as on March 31, 2021 on account of accretion to retained profits.

Apart from low leverage, the company also enjoys low cost of borrowing thereby translating into healthy interest coverage ratio which improved from 3.36 times in FY20 to 6.66 times in FY21. Total Debt to GCA of the company improved from 4.68 times in FY20 to 2.19 times in FY21 on account of reduction in long term debt.

***Strong liquidity position***

GESCO continues to exhibit strong liquidity position. Cash and cash equivalent of the company stood at Rs. 3,138.50 crore as on March 31, 2021 as compared to Rs. 2,226.80 crore as on March 31, 2020. The company continues to follow prudent treasury policy. As part of the policy the company maintains cash and cash equivalent in order to meet debt servicing, capital commitment and free cash reserve in order to mitigate business down cycles.

***Key Rating Weaknesses******Operational performance exposed to Volatility in charter and foreign exchange rates***

GESCO's at consolidated level derives revenue from shipping and offshore business. Major contributor to revenue is shipping with 81% share and balance from offshore segment. Both the businesses continue to be exposed to volatility associated with charter and foreign exchange rates.

***Shipping:***

The company's operational performance in shipping continues to be impacted by volatility associated with charter and foreign exchange rates. The company engages its fleet on spot and time basis. The company has higher contribution of spot as compared to time charter to overall revenue. In FY21 the contribution of spot charter was ranging between 72-77% and time charter ranged between 23-28% as compared to 74-78% of spot charter and 22-26% in time charter in FY20. Due to volatility in trade flow in crude oil and dry bulk the company deploys vessels on spot basis. On the contrary in gas carrier the company deploys vessels on time charter as the rates are stable. All LPG vessels of the company are on one to two years' time charter.

***Offshore:***

GIL's operational performance in offshore segment depends on the crude oil & gas exploration & production industry. The charter rates are impacted by the volatility in crude prices. In recent past the investment in E&P industry has been low. Further, the number of oil field discovery and field start up has declined in past two-three years. GIL reported loss of Rs. 131.12 crore on Total revenue from operations of Rs. 662.03 crore in FY21 as compared to loss of Rs. 60.04 crore

on Total revenue from operation of Rs. 814.69 crore in FY20. GESCO has provided Letter of Comfort to lenders of GIL for amount USD 248.80 mn till FY25. Currently, the outstanding amount is USD 173.80 mn.

During Q4FY21, the company recognized impairment of Rs. 17.79 crore and derecognized carrying amounts of damaged component of vessel amounting to Rs. 20.80 crore towards a vessel, Greatship Rohini which suffered major damage due to fire outbreak.

GESCO's significant portion of revenue is in foreign currency (i.e., US Dollars) and operational expenses are to an extent in foreign currency thereby enjoying a natural hedge to a certain extent. Further, the company's term borrowing is in Indian currency. The company through Indian-Foreign currency swaps option has formed synthetic fixed rate USD loan. By entering currency swap the company reports Mark to Market (MTM) changes which are routed through profit & loss account. During FY21, the company reported net MTM gain of Rs. 309.59 crore as compared net MTM loss of Rs. 373.53 crore in FY20. Further, the company reported loss of foreign currency transaction of Rs. 55.06 in FY21 as compared to profit of Rs. 78.29 crore in FY20.

#### ***Inherent cyclical nature of shipping industry coupled with regulatory risk***

Shipping industry performance is directly linked to global trade flows. During the times of macroeconomic growth, demand for vessels increase leading to higher charter rates resulting in increase in profits for ship operators. Subsequently, the operators would invest in increasing fleet size in anticipation to meet further demand for vessels. On the contrary, in economic downturn, demand for vessels dip causing lower charter rates. Thereby impacting the ship operators with high debt and idle vessels. As per International Maritime Organization the ship operators are required to install Ballast Water Treatment System (BWTS). With expected entry of the shipping industry in the European Union (EU) Emissions trade Scheme by June, 2021 the greenhouse gas regulations is expected to be applicable for ship operators. European Commission has approved new set of greenhouse gas emission targets, wherein the emission reduction is expected to cut by 55% in 2030. It also includes set of strategies including the Sustainable & Smart Mobility Strategy where fuel mix for maritime to be 8-13% from alternative fuels by 2030 and 85-90% in 2050.

With the implementation of these guidelines the shipping operating companies like GESCO would be required to incur additional operational expenditure. In current scenario of moderate charter rates incurring such expenditure might put pressure on overall financial risk profile of shipping companies.

#### **Industry Outlook:**

##### **Dry bulk:**

**Dry bulk charter rates are expected to remain firm in CY2021.**

Pent-up demand for commodities resulted in strong recovery in the dry bulk market, with both freight levels and earnings reaching multi year highs. The rates continue to remain strong even in Q12021. Newbuilding orders in the dry bulk segment fell in 2020 as the pandemic deferred capacity addition. The dry bulk charter rates are expected to remain firm for the rest of CY2021.

**Tanker rates are expected to remain weak with recovery by the end of CY2021.**

Tanker rates are expected to recover by the end of 2021 but that will largely depend on the demand recovery from the main oil consuming nations.

**Offshore Shipping: Negative with recovery from CY2021**

The offshore market is highly sensitive to fluctuations in crude oil prices. Moderation in E&P activity is expected with a slight recovery with increasing crude oil prices, which will impact the offshore shipping segment as well.

**Container charter rates are expected to remain strong in CY2021.**

As for CY2021, the strong momentum for the industry is continuing with high freight rates, strong container demand and ongoing favourable supply and demand characteristics. High demand and elevated freight rates are expected to persist throughout 2021.

#### **Liquidity analysis:**

**Liquidity:** Strong

GESCO at standalone level has cash and cash equivalent of Rs. 3138.50 crore as on March 31, 2021 coupled with expected gross cash accruals of Rs. 1155.83 crore in FY22 provides a liquidity support towards servicing of annual debt obligation of Rs. 770.99 crore in FY22. Average collection days of the company stood at 26 days with negative operating cycle as on March 31, 2021. Overall gearing ratio of the company stood at 0.53 times as on March 31, 2021 provides

sufficient headroom to incur capital expenditure. However, the company does not envisage any major capital expenditure. Any large debt funded capex / acquisition impacting financial risk profile with overall gearing beyond 0.75 times.

#### **Analytical approach:**

Standalone. Additionally, CARE has factored in Letter of Comfort provided by the company to its subsidiary (i.e., Greatship India Limited towards bullet repayment of term obligation payable in FY25. Further, CARE understands that the subsidiary in offshore business segment would not rely upon the parent company (i.e., GESCO) for financial assistance.

#### **Applicable Criteria**

[CARE's criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Shipping Companies](#)

#### **About the Company**

GESCO founded by two families- the Sheths and the Bhiwandiwallas on August 03, 1948 is into business of shipping and offshore oilfield services through its subsidiaries. The company owns and operates 45 vessels with Deadweight Tonnage (DWT) of 3.63 mn having average age of 13.15 years as on March 31, 2021 as compared to 46 vessels with DWT of 3.70 mn having average age of 12.20 years as on March 31, 2020. The fleet of vessels comprises of Crude Tankers, Product Tankers, LPG carriers and Dry Bulk carrier. These vessels are utilized towards transportation of oil & gas, iron ore, coal and etc. across countries.

<b>Brief Financials (Rs. crore)-Standalone</b>	<b>FY20 (Audited)</b>	<b>FY21 (Abridged)</b>
Total operating income	3120.63	2983.71
PBILDT	1065.52	1513.10
PAT	280.69	1030.13
Overall gearing (times)	0.71	0.53
Interest coverage (times)	3.36	6.66

*Note- Financials have been classified as per CARE's internal standards.*

**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 5

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	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
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) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
4.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Jul-20)	1)CARE AA+; Stable / CARE A1+ (05-Jul-19)	1)CARE AA+; Stable / CARE A1+ (05-Oct-18) 2)CARE AAA; Negative / CARE A1+ (15-May-18)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								Negative (15-May-18)
8.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
10.	Non-fund-based-Short Term	ST	-	-	-	-	-	1)Withdrawn (05-Oct-18) 2)CARE A1+ (15-May-18)
11.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
12.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)
13.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (27-Oct-20)	-	-

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	Nil
<b>B. Non-financial negative covenants</b>	
i. Payment of dividend	Declare or pay any dividend during any financial year unless it has paid the installment of principal and interest then due and payable on Debentures or has made provision satisfactory to Trustee for making such payment
ii. Management control	Change the management control of the Company resulting in promoters ceasing control over Company
iii. Sale of asset mortgaged (vessel)	Sell or dispose of the Mortgaged property or any material part thereof or create thereon any mortgage, lien or charge by way of hypothecation, pledge or otherwise howsoever or other encumbrance of any kind whatsoever other than permitted encumbrances

**Annexure- 4: List of subsidiaries, associates and joint ventures of GESCO getting consolidated (list as on March 31, 2021)**

S.No.	Name of the company
1	Greatship (India) Limited
2	Greatship Global Energy Services Pte. Limited
3	Greatship Global Offshore Services Pte. Limited
4	Greatship (UK) Limited
5	Greatship Oilfield Services Limited
6	The Greatship (Singapore) Pte. Limited
7	The Great Eastern Charting LLC (FZC)
8	The Great Eastern Chartering (Singapore) Pte. Limited
9	Great Eastern CSR Foundation
10	Great Eastern Services Limited

**Annexure-5: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.



## Contact us

### Media Contact

Mr. Mradul Mishra  
Contact no. – +91-22-6754 3573  
Email ID – mradul.mishra@careratings.com

### Analyst Contact

Group Head Name – Rajashree Murkute  
Group Head Contact no.- +91-22-6837 4474  
Group Head Email ID- rajashree.murkute@careratings.com

### Relationship Contact

Mr. Saikat Roy  
Contact no. -+91-22- 6754 3404  
Email ID: saikat.roy@careratings.com

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### Disclaimer

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