# The Great Eastern Shipping Company Limited

June 27, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term / Short-term bank facilities | 50.00 | CARE AAA; Stable / CARE A1+ | Revised from CARE AA+; Stable / CARE A1+ |
| Non-convertible debentures | 500.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 400.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 400.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 100.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 300.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 300.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures | 150.00 | CARE AAA; Stable | Revised from CARE AA+; Stable |
| Non-convertible debentures@ | - | - | Withdrawn |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities and non-convertible debentures (NCDs) of The Great Eastern Shipping Company Limited (GESCO) factors in the favourable industry outlook for the crude/product tanker segment as reflected from the strong charter rates prevailing during FY23 (refers to the period April 01 to March 31) and expected to continue in the medium term, thereby aiding GESCO to report healthy cashflow and maintain robust debt coverage indicators.

Due to the trade imbalances caused by the Russia-Ukraine war, the charter rates in the tanker segment witnessed multi-decadal highs during FY23 which fuelled GESCO in reporting strong financial performance during FY23. While the revenue and EBITDA reported multi-fold increase during FY23, on a y-o-y basis, the consolidated net debt has turned negative with large cash balances. With continued trade disruptions from Russia-Ukraine war, increasing US Oil exports, rising global oil demand and lower order book to fleet, the demand is expected to outstrip supply, and a result of which the rates in the tanker segment are expected to remain strong in the medium term. With almost 60% fleet deployed in the tanker segment, the favourable charter rates are likely to further augment the cashflow position. However, given the cyclical nature of industry, the ratings derive comfort from the prudent treasury and liquidity management policies adopted by GESCO. Besides, there are no large debt-funded vessel acquisition/diversification plans by the company in the near term. GESCO is expected to acquire additional fleet once the vessel rates are attractive while maintaining net debt/PBILDT around unity on a consolidated basis.

The ratings 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, prudent risk management policies and treasury function, and a strong liquidity position.

The ratings also factor in the improvement in the financial performance of the wholly-owned subsidiary; Greatship India Ltd (GIL), during FY23.

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

The rating strengths are tempered by the risk associated with volatility in charter rates as well as crude oil prices and inherent cyclical nature of the shipping and oil Exploration and Production (E&P) industry.

@CARE Ratings Limited (CARE Ratings) has withdrawn the ratings assigned to the non-convertible debenture (NCD) issue (ISIN-INE017A08185, INE017A08193) with immediate effect, as the company has repaid the aforementioned NCD issues in full and there is no amount outstanding under the issue as on date.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors – NA**

**Negative factors**

- Net debt/EBITDA at 1x or above on a sustained basis.
- Large investment in any unrelated diversification.
- Material change in liquidity management policy.

## Analytical approach

Consolidated. CARE Ratings Limited (CARE Ratings) has taken consolidated financials of GESCO and its subsidiaries (mentioned below). The approach has been revised from standalone given the linkages between the parent and subsidiary and GESCO extending letter of comfort to GIL as well. The entities consolidated are as follows-

| Entities consolidated | Subsidiary/step-down subsidiary |
|---|---|
| GESCO | |
| The Greatship (Singapore) Pte. Ltd., Singapore | Wholly-owned subsidiary |
| The Great Eastern Chartering L.L.C. (FZC), U.A.E. | Wholly-owned subsidiary |
| The Great Eastern Chartering (Singapore) Pte. Ltd., Singapore | Step-down subsidiary |
| Great Eastern CSR Foundation, India | Wholly-owned subsidiary |
| Greatship India Ltd | Wholly-owned subsidiary |
| Greatship Global Offshore Services Pte. Ltd., Singapore | Step-down subsidiary |
| Greatship Global Energy Services Pte. Ltd., Singapore | Step-down subsidiary |
| Greatship (UK) Ltd., UK | Step-down subsidiary |
| Greatship Oilfield Services Ltd., India | Step-down subsidiary |

**Outlook:** Stable

GESCO is expected to sustain its stable risk profile backed by prudent risk management policies, strong liquidity profile, established client profile and its long-term track record over seven decades.

## Detailed description of the key rating drivers:

### Key strengths

**Favourable industry outlook**

Russia-Ukraine war has caused a great deal of fleet dislocation leading to higher tonne-mile demand and thereby increasing the charter rates to multi-decade high. Following the ban on Russian Oil by European Union, the Russian oil exports have moved to Asia (mostly China/India), which led to increase in the tanker tonne-mile demand. During CY22 (refers to the period January 1 to December 31), there was an overall growth of 6.6% in the tonne-mile demand. This apart, recovery in demand as well as limited supply of ships has fuelled the sharp increase in charter rates in the tanker segment. The average earnings for crude carriers grew by almost 4x from US $11,661 per day in FY22 to US $46,179 per day in FY23, whereas the earnings of the product tankers grew by 3.6x from US $9,194 per day in FY22 to US $33,531 per day in FY23.

The strong momentum in the tanker segment is expected to continue in FY24 with continued trade disruptions, increasing global oil demand and refining capacity, increasing US exports which are at all time high and supply side being constrained with lower order to fleet ratio. The orderbook to fleet ratio for crude tankers stood at 2.5%, whereas for product tankers stood at 8%.

Shipyards are largely full until 2025 due to record levels of containership and LNG carrier orders over the past few years. Therefore, the fleet addition is expected to remain low in the tanker segment in the next two years.

After witnessing historic highs during the pandemic years, the charter rates for the bulk segment have witnessed moderation due to decongestion of the ports, easing of supply chains and lower import demand during FY23. The freight rates witnessed some recovery at the end of FY23 (around March) with the increase in steel production in China as well increased coal imports by China and India; however, the overall rates remain moderate. CARE Ratings expects the rates in the bulk segment to pick up during the second half with the expected demand increase from China. The offshore market also remained positive with the market witnessing higher pricing in the recent time.

**Strong financial performance witnessed during FY23**

The favourable industry scenario resulted in strong earnings and cashflow for GESCO. The company reported revenue growth of 72% in shipping and offshore business during FY23 (on consolidated basis), from ₹3,302 crore in FY22 to ₹5,690 crore in FY23. Aided by strong performance, the EBIDTA margins have strengthened to about 55% during FY23. With favourable industry scenario, CARE Ratings expects the margins and return indicators to remain strong in the medium term.

The performance of GIL has also improved over the past few years with the company reporting EBITDA growth of 42% in FY23.

**Robust financial position and prudent risk management policies**

GESCO has seen a consistent improvement in the performance over the last few years which along with absence of any major debt-funded capex has resulted in robust financial position and a net debt negative position on consolidated basis as on March 31, 2023. GESCO has also prepaid USD 72 million foreign currency term loan. CARE Ratings expects the coverage metrics to remain strong with no immediate capex plans given the high vessel rates. The cash deployment in vessel acquisition is dependent upon price correction/attractive deal in sight.

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 (59% of borrowings as on March 31, 2023) 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 FY23, GESCO has reported an MTM loss of ₹90 crore.

**Strong market position and established track record**

GESCO is the largest private shipping company in India and is promoted by the Sheth brothers and the 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), representing the Board of Directors. The board comprises adequate mix of executive and non-executive/independent directors ((9 out of 14 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 May 12, 2023, the company owns and operates 43 vessels with deadweight tonnage (DWT) of 3.44 million and average age of fleets as 13.46 years. The company historically has been operating a fleet of young ships which gives it the competitive advantage and reduces associated costs. About 59% of the fleet capacity (in terms of DWT) operates in product/crude tanker segment, 5% in gas tanker segment and the rest 35% in dry bulk segment. Having a presence in both the segments aids GESCO in maintaining stable financial performance in case of any down trend in any segment. The same has been witnessed in FY22 where the strong performance in bulk segment has negated the lower tanker prices, whereas the strong performance in the tanker segment has negated the impact of weaker charter rates in the bulk segment in FY23. The company also operates offshore business through its wholly-owned subsidiary, GIL. GIL has four jack-up rigs with average age of 12 years and 19 offshore-support vessels with average age of 13 years.

### Liquidity: Strong

The cash accrual generation and existing liquidity comfortably covers the debt servicing obligation of the company. As against the debt repayment of ~₹850 crore (including principal and interest), the company has cash balance of over ₹5,200 crore.
GESCO has a well-defined liquidity policy, whereby it maintains cash and cash equivalents to meet the next three years' debt servicing, capital commitments, dry-docking expenses, and dividend payments, plus USD 100 million cash minus the next three 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. Besides liquidity in the form of cash/bank balances, ships are liquid assets, with GESCOs fleet valued at around ₹10,000 crore, thereby providing 4x cover against outstanding debt (on standalone basis).

### Key weaknesses

**Profitability susceptible to fluctuation in charter rates and crude oil 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 company is exposed to the inherent risk associated with adverse movement in charter rates and crude oil prices. While charter rates for rigs have surged with budgeted E&P capex; it is considerably below the rates witnessed in earlier upward cycle of crude oil.

**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 the economic downturn, the demand for vessels dipped causing lower charter rates. The performance of off-shore business is also dependent on E&P plans of global oil majors. The company is exposed to the regulations from both domestic and international agencies and has to undergo regular capex to comply with the regulations.

**Assumptions/Covenants:** Not applicable

### Environment, social, and governance (ESG) risks

The company is fully compliant with the regulations set by IMO and is taking measures to reduce the emissions and fuel consumptions. Few of the measures include hull coatings during dry dock, installation of emission control devices, LED lights, etc. The board comprises adequate mix of executive and non-executive/independent directors (9 out of 14 directors are Non-Executive - Independent Director), thereby reflecting prudent corporate governance practice.

### Applicable criteria

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

### About the company and industry

## Industry classification

| Macro-Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Services | Services | Transport Services | Shipping |

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 also has presence in off-shore 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 30.08% shareholding as on March 31, 2023.

| Brief Financials (₹ crore) – Consolidated | March 31, 2022 (A) | March 31, 2023 (Abg.) |
|---|---|---|
| Total operating income | 3,414 | 5,955 |
| PBILDT | 1,322 | 3,284 |
| PAT | 468 | 2,554 |
| Overall gearing (times) | 0.58 | 0.36 |
| Interest coverage (times) | 3.57 | 9.58 |

A: Audited Abg.: Abridged; Note: 'the above results are latest financial results available'

**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**: Annexure-4

**Lender details**: Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Debentures-Non-Convertible Debentures | INE017A08235 | 6-May-16 | 8.70% | 6-May-26 | 250 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08243 | 31-May-16 | 8.70% | 31-May-25 | 250 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08250 | 10-Nov-16 | 8.24% | 10-Nov-25 | 200 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08268 | 10-Nov-16 | 8.24% | 10-Nov-26 | 200 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08276 | 18-Jan-17 | 7.99% | 18-Jan-24 | 250 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08284 | 18-Jan-17 | 7.99% | 18-Jan-25 | 250 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A08292 | 25-May-17 | 8.25% | 25-May-27 | 150 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A07542 | 31-Aug-17 | 8.05% | 31-Aug-24 | 150 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A07559 | 12-Apr-18 | 8.85% | 12-Apr-28 | 300 | CARE AAA; Stable |
| Debentures-Non Convertible Debentures | INE017A07567 | 02-Nov-20 | 8.05% | 02-Nov-28 | 150 | CARE AAA; Stable |
| Debentures-Non-convertible debentures | INE017A08185 | 6-Jan-11 | 9.70% | 6-Jan-23 | - | Withdrawn |
| Debentures-Non-convertible debentures | INE017A08193 | 18-Jan-11 | 9.70% | 18-Jan-23 | - | Withdrawn |
| Non-fund-based - LT/ ST-Bank Guarantee | - | - | - | - | 50.00 | CARE AAA; Stable / CARE A1+ |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | 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 |
| 1 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 50.00 | CARE AAA; Stable / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (04-Jul-22) | 1)CARE AA+; Stable / CARE A1+ (05-Jul-21) | 1)CARE AA+; Stable / CARE A1+ (06-Jul-20) |
| 3 | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 4 | Debentures-Non Convertible Debentures | LT | 400.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 5 | Debentures-Non Convertible Debentures | LT | 400.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 6 | Debentures-Non Convertible Debentures | LT | 100.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 7 | Debentures-Non Convertible Debentures | LT | 300.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 8 | Debentures-Non Convertible Debentures | LT | 300.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (06-Jul-20) |
| 9 | Debentures-Non Convertible Debentures | LT | 150.00 | CARE AAA; Stable | - | 1)CARE AA+; Stable (04-Jul-22) | 1)CARE AA+; Stable (05-Jul-21) | 1)CARE AA+; Stable (27-Oct-20) |

*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

| |
|---|
| To view the lender wise details of bank facilities please click here |

**Note on the 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 us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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