The Great Eastern Shipping Company Limited

June 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	50.00	CARE AAA; Stable / CARE A1+	Reaffirmed
Non-convertible debentures	500.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	400.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	150.00 (Reduced from 400.00)	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	100.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	300.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	300.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	150.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and non-convertible debentures (NCDs) of The Great Eastern Shipping Company Limited (GESCO) factors in long-standing presence of more than seven decades in the shipping business, demonstrated track record of operations across business cycles, extensive experience of promoters, diversified and relatively young fleet 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.

Ratings also factors in the robust financial performance reported in FY24 (FY refers April 01 to March 31) driven by strong charter rates in crude/product tanker segment considering continued trade disruptions caused by Russia Ukraine War added on by the Panama Canal/Suez Canal disruptions. Apart from this, charter rates in the dry bulk segment bounced from Q4FY24, supporting the performance. GESCO reported healthy cashflow and strong liquidity position, resulting in continued net debt being negative. GESCO is expected to report strong financial performance with rates likely to remain favourable in the medium term with lower supply of new ships and capacity utilisation of shipyards at higher levels and trade disruptions continuing. With almost 59% fleet (in terms dwt) deployed in the tanker segment, favourable charter rates are likely to further augment the cashflow position. However, given the cyclical nature of industry, ratings derive comfort from prudent treasury and liquidity management policies adopted by GESCO. 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 to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) around unity on a consolidated basis. CARE Ratings Limited (CARE Ratings) notes GESCO is fully compliant with regulations set by IMO and is taking measures to reduce emissions and fuel consumptions.

Performance in the offshore segment has also shown improvement and is also likely to improve with the company repricing majority vessels in the current fiscal at higher rates.

Rating strengths are tempered by risks associated with volatile charter rates and crude oil prices and inherent cyclical nature of the shipping and oil Exploration and Production (E&P) industries.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Not applicable

Negative factors

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

- Net debt to earnings before interest, taxation, depreciation, and amortisation (net debt/EBITDA) at 1x or above on a sustained basis.
- Large investment in unrelated diversifications.
- Material changes in liquidity management policy.

Analytical approach

Consolidated. CARE Ratings has taken consolidated financials of GESCO and its subsidiaries (mentioned below). The entities consolidated are listed in Annexure 6

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 key rating drivers

Key strengths

Favorable industry outlook

Following the European Union's ban on Russian oil, the import of Russian oil has shifted primarily to Asia, particularly China and India. This shift has resulted in higher demand for tankers. Resultant demand increased charter rates to historical highs in FY23. Strong rates in the tanker segment continued in FY24, with trade disruption caused due to Russian Ukraine war continuing. Events such as red sea attacks, which diverted the tanker to Cape of Good Hope has increased the overall tonne mile demand. In CY23, there was an overall tonne mile growth of around 7%, while new fleet addition was less than 2%. 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 book to fleet ratio.
After a strong correction in dry bulk rates in FY23, the dry bulk charter has normalised to pre-COVID levels in FY24. Charter rates for dry bulk segment remained subdued in first half FY24 due to lower demand, thereafter significantly recovered with increase of iron ore imports from China, increase coal demand due to higher electricity demand from China and India, improving agriculture exports from Brazil. Per CARE Ratings Limited (CARE Ratings), with limited fleet growth and stable demand, charter rates are expected to remain stable in FY25.
The offshore market also remained positive with the market witnessing higher pricing recently, however, pricings remained much lower than peak levels witness in the last upcycle.

Strong financial performance reported in FY24

Driven by strong charter rates, the company reported operational revenue (consolidated) of ₹5,432 crore in FY24 (₹5,706 crore in FY23). Profitability remained strong with the company reporting PBILDT margin of 55.38% in FY24 (55.08% in FY23) and PAT margin of 48.12% in FY24. With favourable industry scenario, CARE Ratings expects margins and return indicators to remain strong in the medium term.
The subsidiary, GIL has been reporting improvement in financial performance. In FY24, GIL reported 17% growth in income from ₹936 crore in FY23 to ₹1,090 crore in FY24, GIL reported PAT of ₹163 crore in FY24 as against ₹61 crore 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 and absence of major debt-funded capex resulted in robust financial position and a net debt negative position on consolidated basis as on March 31, 2024. CARE Ratings expects coverage metrics to remain strong with no immediate major capex plans, given the high vessel values. Cash deployment in vessel acquisition depends on price correction/attractive deal in sight.

The company has prudent risk management policies covering forex, treasury and liquidity management, given its presence in the highly cyclical industry. While earnings and expenses are in foreign currency, providing natural hedge, a large part of liability (62% of borrowings as on March 31, 2024) is in the domestic currency (INR). To mitigate forex risk, the company has formed synthetic fixed rate USD loans through currency swaps. 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). In FY24, GESCO has reported an MTM gain of ₹124 crore on Consolidated basis. Any unrelated diversifications (not related to shipping) sector remains a key rating monitorable.

Strong market position and established track record

GESCO is the largest private shipping company in India and is promoted by Sheth brothers and Bhiwandiwallas. In its presence of more than seven decades, the company a demonstrated track record of operating across business cycles. It developed a strong clientele with major counterparties being reputed charterers in oil & gas industry and 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 (nine out of 14 directors are Non-Executive - Independent Director), 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 31, 2024, the company owns and operates 44 vessels with deadweight tonnage (DWT) of 3.46 million and average age of fleet at 14 years.

Historically, the company has been operating a fleet of relatively young ships, which gives it competitive advantage and reduces associated costs. About 59% fleet capacity (in terms of DWT) operates in product/crude tanker segment, 5% in gas tanker segment and the rest 36% in dry bulk segment. Having a presence in both segments aids GESCO maintain stable financial performance in case of down trends across segment. This has been witnessed in FY22, where strong performance in bulk segment negated lower tanker prices, whereas strong performance in the tanker segment has negated impact of weaker charter rates in the bulk segment in FY23/FY24.

The company also operates offshore business through its wholly owned subsidiary, GIL. GIL has four jack-up rigs with an average age of 12.6 years and 19 offshore-support vessels with average age of 14 years.

Liquidity: Strong

Cash accrual generated and existing liquidity comfortably covers the company's debt servicing obligation. As against principal repayment of ~₹623 crore in FY25, the company has cash balance of ~₹6,508 crore as on March 31, 2024

GESCO has a well-defined liquidity policy, where it maintains cash and cash equivalents to meet the next three years' debt servicing, capital commitments, dry-docking expenses, and dividend payments, plus $ 100 million cash minus the next three years' EBIDTA, which is calculated based on 20 years' lowest freight rates. A stress test is conducted quarterly to ensure adherence to the policy framework. Apart from liquidity in the form of cash/bank balances, ships are liquid assets, with GESCOs fleet valued at around ₹10,000 crore, 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 company's strategy regarding the fleet mix is to keep majority of its capacity open to take advantage of strong markets. While it has gained in the last few years considering 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 rates witnessed in previous upcycle.

Cyclical and regulated shipping industry

The shipping industry's performance is directly linked to global trade flows. During the times of macro-economic 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, demand for vessels dipped causing lower charter rates. Performance of off-shore business also depends on E&P plans of global oil majors. The company is exposed to regulations from domestic and international agencies and has to undergo regular capex to comply with regulations.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

The company is fully compliant with regulations set by IMO and is taking measures to reduce emissions and fuel consumptions. Few measures include hull coatings in dry dock, installation of emission control devices, LED lights, among others Towards reduction in sulphur emissions, five out of 44 vessels are fitted with exhaust gas cleaning system (scrubbers). In FY23, GESCO was able to achieve 7.8 % reduction in SOx emissions as compared to FY22.

The board comprises adequate mix of executive and non-executive/independent directors (nine out of 14 directors are Non-Executive - Independent Director), reflecting prudent corporate governance practice.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments
Shipping
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, 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, Sheths and the Bhiwandiwallas, and promoters hold 30.07% shareholding as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	5,706	5,432
PBILDT	3,143	3,009
PAT	2,575	2,614
Overall gearing (times)	0.36	0.25
Interest coverage (times)	9.17	11.37

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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	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
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	50.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Debentures-Non-Convertible Debentures	LT	-	-	-	1)Withdrawn (27-Jun-23)	1)CARE AA+; Stable	1)CARE AA+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
							(04-Jul-22)	(05-Jul-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	50.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (27-Jun-23)	1)CARE AA+; Stable / CARE A1+ (04-Jul-22)	1)CARE AA+; Stable / CARE A1+ (05-Jul-21)
3	Debentures-Non-Convertible Debentures	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
4	Debentures-Non-Convertible Debentures	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
5	Debentures-Non-Convertible Debentures	LT	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
6	Debentures-Non-Convertible Debentures	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
7	Debentures-Non-Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
8	Debentures-Non-Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)
9	Debentures-Non-Convertible Debentures	LT	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Jun-23)	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA+; Stable (05-Jul-21)

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	The Greatship (Singapore) Pte. Ltd., Singapore	Full	Wholly owned subsidiary
2	The Great Eastern Chartering L.L.C. (FZC), U.A.E.	Full	Wholly owned subsidiary
3	The Great Eastern Chartering (Singapore) Pte. Ltd., Singapore	Full	Step-down subsidiary
4	Great Eastern CSR Foundation, India	Full	Wholly owned subsidiary
5	Greatship India Ltd	Full	Wholly owned subsidiary
6	Greatship Global Offshore Services Pte. Ltd., Singapore	Full	Step-down subsidiary
7	Greatship Global Energy Services Pte. Ltd., Singapore	Full	Step-down subsidiary
8	Greatship (UK) Ltd., UK	Full	Step-down subsidiary
9	Greatship Oilfield Services Ltd., India	Full	Step-down subsidiary
10	GEShipping (IFSC) Ltd.	Full	Wholly owned subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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