

## The Great Eastern Shipping Company Limited

May 15, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long/Short-term Bank Facilities	50.00	<b>CARE AAA; Negative / CARE A1+ [Triple A; Outlook: Negative/ A One Plus]</b>	Ratings reaffirmed; Outlook revised from 'Stable'
Short-term Bank Facilities	204.00	<b>CARE A1+ [A One Plus]</b>	Reaffirmed
<b>Total Facilities</b>	<b>254.00 (Rs. Two hundred fifty four crore only)</b>		
Non-Convertible Debenture (NCD)	3,450.00 (reduced from 3,635.00) (Rs. Three thousand four hundred and fifty crore only)	<b>CARE AAA; Negative [Triple A; Outlook: Negative]</b>	Rating reaffirmed; Outlook revised from 'Stable'

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/instruments of The Great Eastern Shipping Company Limited (GESCO) continue to derive strength from the established track record of the company in the shipping industry with an experienced and professionally qualified management, a diversified fleet profile with low average age of vessels resulting in sound operating efficiency, comfortable capital structure, robust risk management framework and strong liquidity position.

The ability of the company to gainfully deploy its assets amidst challenging operating environment as well as maintain its capital structure and the liquidity profile remain the key rating sensitivities. Any further increase in the gearing levels leading to deterioration in the financial profile would be a key rating monitorable.

### Outlook: Negative

The outlook on the long term bank facilities and instruments has been revised from 'Stable' to 'Negative' on account of slower than expected recovery in the shipping segment resulting in lower charter rates. The tanker segment, especially the crude tanker segment, is expected to witness lower charter rates in the near term and hence, GESCO's cash flows are expected to be lower than expectation. The cash accruals for FY18 have been lower than FY17 levels on account of lower charter rates in tanker segment, although recovery was seen in the dry bulk segment.

The outlook will be revised to 'Stable' if the industry revives and the operating performance of the company improves.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Established track record of the company with experienced and professionally qualified management-** GESCO, incorporated in 1948, is one of the oldest and also the largest private shipping companies in the country in terms of tonnage capacity. The promoter family, led by Executive Chairman Mr K.M. Sheth, is actively involved in the day-to-day operations of the company. The Board of Directors comprises of eminent people from the industry and corporate world. Operations of the company are managed by professionals with extensive industry and management experience.

**Operating efficiency on account of a younger fleet profile-** GESCO has a relatively younger fleet with an average age of around 10.61 years in the shipping segment and around 7 years in the offshore segment. Thus, the young fleet helps GESCO in fetching better charter rates and higher vessel utilization. Further, in the current scenario of continuing industry downturn, younger fleet profile increases the probability of the asset being deployed.

**Diversified fleet profile-** GESCO on a consolidated basis has a diversified fleet profile consisting of tankers, product/gas carriers, dry bulk in the shipping segment and offshore vessels, rigs in the offshore segment. This has resulted in

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

diversified revenue profile with the shipping and offshore business contributing around 71% and 29% respectively to the total consolidated revenue in FY18. The contribution from the offshore business has declined in FY18 to 29% from 39% in FY17; however it was in line with the downturn in the offshore industry worldwide.

The shipping business is relatively risky, given the high volatility in charter rates and asset values while the offshore business is relatively stable as it is marked by long-term contracts and a large proportion of repeat business.

**Comfortable capital structure and strong liquidity position-** GESCO continues to maintain a comfortable capital structure on net debt basis on March 31, 2018. The liquidity position is also healthy and the company continues to maintain cash and cash equivalents of Rs. 2650.96 crore as on March 31, 2018 providing ample financial flexibility.

*However, any further increase in the gearing level leading to deterioration in the financial profile would be a key rating monitorable.*

### Key Rating Weaknesses

#### **Incurrence of losses in Q4'FY18 with decline in profitability during FY18 on a standalone basis**

The company has incurred net loss of Rs.13.44 crore during Q4'FY18 as against net profit of Rs.155.24 crore during Q4'FY17 on a standalone basis. The losses were attributable to decline in charter rates in all the segments as well as increase in operating costs during the period.

During FY18, on a standalone basis, the total operating income (excluding other income and profit on sale of ships & other current assets) has improved to Rs. 2269.67 crore as against Rs.2061.32 crore, however PAT has declined to Rs. 160.19 crore as against PAT of Rs.602.52 crore during FY17. The decrease in the profitability during the year is on account of decline in charter rates during the year as well as increase in operating and finance costs during the year. Gross cash accruals have declined from Rs. 684.15 crore in FY17 to Rs. 443.04 crore in FY18.

On a consolidated basis, the company has reported TOI of Rs. 3252.76 crore with a loss of Rs. 209.57 crore during FY18. The company has recorded Rs.270.00 crore as deferred tax liability and Rs. 206 crore as impairment charges during the year. Adjusting the same, the adjusted PAT would be Rs.266.82 crore.

#### **Decline in charter rates during Q4'FY18**

The charter rates have declined during Q4'FY18 thereby impacting the profitability margins of the company. The rates are expected to improve in the dry bulk segment during the year with the expected recovery in the segment. However, the rates in tanker segment, especially crude tanker segment, are expected to remain low, thereby impacting the cash flows of GESCO in the medium term.

Time Yields (USD per day)	Charter	FY13	FY14	FY15	FY16	FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Crude Tanker		17,764	16,792	21,575	32,026	22,286	15,584	15,975	16,811	12,846
Product Carriers		14,955	16,071	20,797	24,559	18,063	15,432	13,833	15,259	14,598
Dry bulk		9,902	12,119	10,176	6,509	6,856	9,166	8,940	12,231	11,852

**Susceptible to volatility in spot rates in the shipping segment-**Earlier, GESCO entered into long term time charters agreements with its major customers, which ensured revenue stability and visibility. However, during the last two-three years, proportion of vessels on spot charter has increased because of increased uncertainty in freight rates. The company is currently expecting the rates to increase in the medium term based on which it is entering into short term contracts. However, if the rates continue to remain low for a longer period or reduce further, the company's profitability will be affected from the volatility of the spot rates.

**Cyclical nature of the shipping industry and continued industry slowdown-**The performance of the shipping industry is linked with the global trade flows and the industry is therefore highly cyclical in nature.

### Industry Outlook

The global tanker market is expected to remain oversupplied in near term keeping freight rates low due to new vessel deliveries and limited scrapping of older ships. Higher US exports and gradually moderating oil inventories is expected to drive a moderate increase in tanker demand by the end of 2018.

The outlook for dry bulk segment remains stable with possibility of gradual recovery backed by shrinking demand supply gap. With high demolition activity and low deliveries the vessel capacity is expected to grow at a slow annual rate of 1% over the next couple of years, while tonne-mile demand is expected to grow at a faster pace of around 3% per annum. As supply and demand becomes more balanced over the forecast years, charter rates are expected to improve gradually.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

[CARE's methodology for shipping sector](#)

[Criteria for Short Term Instruments](#)

**About the Company**

Promoted by the Sheth brothers and the Bhiwandiwalla family on August 3, 1948, GESCO is the largest private shipping company in India on tonnage basis. The company also operates in the offshore oilfield services segment through its 100% subsidiary - Greatship (India) Limited (GIL).

In the shipping segment, GESCO owns and operates 49 vessels, comprising of 34 tankers (12 crude carriers, 17 product carriers and 5 gas carriers) and 15 bulk carriers with an average age of 10.61 years (3.97 million dwt) as on May 10, 2018. Its subsidiary - GIL has a fleet of 19 vessels and 4 jack-up rigs providing offshore oilfield logistics support services, offshore construction services, and offshore drilling services. The company also engages in in-chartering, which boosts its revenue and the profitability

Brief Financials- Standalone (Rs. crore)	FY17 (A)	FY18 (A)*
Total operating income	2061.32	2269.67
PBILDT	1088.71	857.28
PAT	602.52	160.19
Overall gearing (times)	0.86	0.81
Overall gearing on net debt basis (times)	0.32	0.30
Interest coverage (times)	4.41	2.61

\*Based on limited review; 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

**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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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

Name of the Instrument	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 AAA; Negative / CARE A1+
Non-fund-based-Short Term	-	-	-	204	CARE A1+
Debentures-Non Convertible Debentures	3-Jul-09	9.80%	3-Jul-19	240	CARE AAA; Negative
Debentures-Non Convertible Debentures	20-Aug-09	9.75%	20-Aug-19	235	CARE AAA; Negative
Debentures-Non Convertible Debentures	10-Nov-09	9.60%	11-Nov-19	200	CARE AAA; Negative
Debentures-Non Convertible Debentures	24-Dec-09	9.19%	24-Dec-18	100	CARE AAA; Negative
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	50	CARE AAA; Negative
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	40	CARE AAA; Negative
Debentures-Non Convertible Debentures	8-Feb-10	9.35%	8-Feb-19	85	CARE AAA; Negative
Debentures-Non Convertible Debentures	6-Jan-11	9.70%	6-Jan-23	100	CARE AAA; Negative
Debentures-Non Convertible Debentures	18-Jan-11	9.70%	18-Jan-23	100	CARE AAA; Negative
Debentures-Non Convertible Debentures	2-Feb-11	9.70%	2-Feb-21	100	CARE AAA; Negative
Debentures-Non Convertible Debentures	15-Apr-11	9.70%	15-Apr-21	150	CARE AAA; Negative
Debentures-Non Convertible Debentures	25-Apr-11	9.70%	25-Apr-21	50	CARE AAA; Negative
Debentures-Non Convertible Debentures	6-May-16	8.70%	6-May-26	250	CARE AAA; Negative
Debentures-Non Convertible Debentures	31-May-16	8.70%	31-May-25	250	CARE AAA; Negative
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-25	200	CARE AAA; Negative
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-26	200	CARE AAA; Negative
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-24	250	CARE AAA; Negative
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-25	250	CARE AAA; Negative
Debentures-Non Convertible Debentures	25-May-17	8.25%	25-May-27	150	CARE AAA; Negative
Debentures-Non Convertible Debentures	31-Aug-17	8.05%	31-Aug-24	150	CARE AAA; Negative
Debentures-Non Convertible Debentures	12-Apr-18	8.85%	12-Apr-28	300	CARE AAA; Negative

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	475.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)	1)CARE AAA (07-Jul-15)

							2)CARE AAA (28-Jul-16)	
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)
3.	Debentures-Non Convertible Debentures	LT	460.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)
5.	Non-fund-based - LT/ ST- Bank Guarantees	LT/ST	50.00	CARE AAA; Negative / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (23-Aug-17)	1)CARE AAA; Stable / CARE A1+ (05-Jan-17) 2)CARE AAA / CARE A1+ (28-Jul-16)	1)CARE AAA / CARE A1+ (07-Jul-15)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16) 3)CARE AAA (06-Apr-16)	-
7.	Debentures-Non Convertible Debentures	LT	215.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (07-Sep-16)	-
8.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)	-
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)	-
10.	Non-fund-based-Short Term	ST	204.00	CARE A1+	-	1)CARE A1+ (23-Aug-17)	1)CARE A1+ (07-Feb-17)	-
11.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Negative	-	1)CARE AAA; Stable (23-Aug-17) 2)CARE AAA; Stable (18-May-17)	-	-
12.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Negative	-	-	-	-



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