

## The Great Eastern Shipping Company Limited

July 05, 2019

### Ratings

Instruments/ Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	50.00	<b>CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)</b>	Reaffirmed
<b>Total Bank Facilities</b>	<b>50.00 (Rs. Fifty crore only)</b>		
<b>Non-Convertible Debenture (NCD)</b>	<b>2,935.00 (Rs. Two thousand nine hundred and thirty five only)</b>	<b>CARE AA+; Stable (Double A Plus; Outlook: Stable)</b>	Reaffirmed

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation in the long term and short term rating assigned to the bank facilities and 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 operating efficiency, and its healthy liquidity position. CARE also takes comfort from GESCO's stated policy to maintain sufficient cash position at any point in time. These rating strengths are partially tempered by declining trend in charter rates, due to slowdown in the industry, and decline in GESCO's profitability. The ratings continue to factor in the susceptibility of GESCO's profitability to volatility in the freight rates, as a large number of its vessels are deployed at spot rate, as well as foreign exchange rates.

The ability of the company to gainfully deploy its assets amidst challenging operating environment, and improve its capital structure and liquidity profile will remain key rating sensitivities; any deterioration in the same would be a credit monitorable. Further, CARE will continue to monitor the company's progress to be compliant with International Maritime Organization's (IMO's) regulations regarding usage of low sulphur fuel and installation of ballast water treatment system (BWTS), and any sizeable debt funded capex undertaken for the same will be a key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Established track record of the company with experienced and professionally qualified management***

GESCO 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 Chairman Mr. K.M. Sheth, is actively involved in the day-to-day operations of the company. The Board of Directors comprises eminent people from the industry and corporate world. Operations of the company are managed by professionals with extensive industry and management experience

##### ***Diversified and younger fleet profile resulting in operating efficiency***

GESCO has a diversified fleet profile consisting of tankers, product and gas carriers and dry bulk carriers in the shipping segment. The company owns and operates 47 vessels, comprising 34 tankers (12 crude carriers, 17 product carriers and 5 gas carriers) and 13 dry bulk carriers (3.85 million DWT) as on June 30, 2019. Further, GESCO has a relatively younger fleet with an average age of 11.58 years. The young fleet helps GESCO in fetching better charter rates, higher vessel utilization, and lower operating costs. Further, in the current scenario of continuing industry downturn, younger fleet profile increases the probability of the asset being deployed. The company actively manages its fleet by periodically looking out for attractive buying opportunities at bottom level markets and fetching better prices for sale of existing ones.

##### ***Comfortable capital structure and debt coverage indicators; albeit marginal deterioration in the same***

Over the past few years, GESCO's net debt has increased significantly due to increase in borrowings to fund vessel purchases. As on March 31, 2019, Total debt stood at Rs.4114.96 crore as against Rs.4222.63 crore as on March 31, 2018. Further as on June 30, 2019, Total debt stood at Rs. 4089.47 crore. Overall gearing on net debt basis increased marginally to 0.36x as on March 31, 2019 as compared to 0.33x as on March 31, 2018. The overall gearing considering total debt stood at 0.81x as on March 31, 2019. The debt coverage indicators also declined during this period, with interest coverage ratio of 2.35x in FY19 as against 2.83x in FY18. The total debt/ GCA and net debt/ GCA improved to 7.39x and 3.26x respectively during FY19 as against 9.35x and 3.91x respectively during FY18 mainly due to increase in gross cash accruals. Further, GESCO has also provided Letter of comfort for debt obligation of subsidiary company (GIL).

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

**Key Rating Weaknesses*****Industry slowdown resulting in decline in charter rates and consequent decline in GESCO's profitability***

The performance of the shipping industry is linked with the global trade flows and the industry is therefore highly cyclical in nature. The industry is going through a rough phase since the global economic slowdown in 2008-09 and the average charter rates for the crude tankers and product carriers of GESCO are declining since 2016. During FY19, freight rates in crude market were in declining trend at levels of around \$10,000/day in H1FY19 at but picked up significantly in H2FY19 to levels of about \$21,000/day primarily driven by increase in US Crude exports. Freight rates in product market also picked up in H2FY19, whereas rates in dry bulk market deteriorated. The PBILDT declined by 11% to Rs.851.30 crore in FY19 from Rs.928 crore in FY18 and the company has reported a PAT loss in absolute terms of Rs.19 crore in FY19 as against PAT of Rs.160 crore in FY18. The PBILDT margin declined from 39.65% in FY18 to 29.49% in FY19 and the PAT margin was negative to -0.67% in FY19 as against 6.84% during FY18.

The performance of GESCO's wholly owned subsidiary, GIL, has also deteriorated during the year with the industry slowdown leading to fall in charter rates and low average utilization of the vessel capacity. GIL's total operating income declined by 8.4% to Rs.916 crore in FY19 from Rs.1001.54 crore in FY18. The company reported net loss of Rs.1.98 crore during FY19.

***Susceptibility of GESCO's profitability to volatility in the freight rates and foreign exchange rates***

Earlier, GESCO entered into more long term time charter agreements with its major customers, which ensured revenue stability and visibility. However, during the last 2-3 years, proportion of vessels on spot charter has increased because of low time charter rates. Out of the present shipping fleet of 47 vessels, 80-90% of the vessels are on spot charter. However, if the rates remain low for a longer period or reduce further, the company's profitability will be affected from the volatility of the spot rates. Further, since a significant portion of GESCO's revenues are US Dollar denominated, whereas a large portion of its borrowings is Rupee denominated, exposing the company to foreign currency risk, the company manages the risk by using various derivative instruments.

***Recent IMO regulations for the shipping industry***

GESCO has installed scrubbers on 1 out of 47 of its vessels till now and 6 additional vessels are scheduled to be installed with the same by end of FY20. The company expects the cost of installing scrubbers to be around \$2.5-3 million per vessel. The company expects total capex of about \$20 million for the scrubbers. Whether there is enough 0.5% fuel being produced by the refining industry or more crude oil has to be processed in order to produce the same amount of fuel, whether there will be surplus of 3.5% fuel which has to be stored on ships, tightening of the supply of ships are the factors that could remain critical factors for market recovery by end of FY20. Further, GESCO has installed BWTS (Ballast Water Treatment System) in around 20% (8 vessels) of the vessels and the company plans to install BWTS in 35 additional vessels at the time of their next dry dock.(7 vessels in FY20, 9 vessels in FY21, 12 vessels in FY22 and balance 7 vessels from FY23 onwards).

CARE will continue to monitor the company's progress to be compliant with IMO's regulations, and any sizeable debt funded capex undertaken for the same will be a key rating sensitivity.

**Liquidity**

The liquidity position of the company continues to remain healthy with cash and cash equivalents of Rs.2298 crore as on March 31, 2019. As a risk mitigation strategy GESCO maintains sufficient liquidity to meet the debt servicing, and envisaged capital expenditure and dividend payments for the next three years. GESCO maintains liquidity in the form of dollar denominated FDs, bank deposits or debt fund instruments.

**Analytical approach:** Standalone factoring in the group company exposure.

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

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

**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. In the shipping segment, GESCO owns and operates 47 vessels, comprising 34 tankers (12 crude carriers, 17 product carriers and 5 gas carriers) and 13 dry bulk carriers with an average age of 11.58 years (3.85 million dwt) as on June 30, 2019. Its wholly owned subsidiary, Greatship (India) Limited provides offshore oilfield services. 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.

Brief Financials- Standalone (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2340.46	2886.33
PBILDT	928.07	851.30
PAT	160.19	-19.47
Overall gearing (on the basis of total debt) (times)	0.81	0.81
Overall gearing (on the basis of net debt) (times)	0.33	0.36
Interest coverage (times)	2.83	2.35

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

#### 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	-	-	-	50.00	CARE AA+; Stable / CARE A1+
Non-fund-based-Short Term	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures	20-Aug-09	9.75%	20-Aug-19	235	CARE AA+; Stable
Debentures-Non Convertible Debentures	10-Nov-09	9.60%	11-Nov-19	200	CARE AA+; Stable
Debentures-Non Convertible Debentures	6-Jan-11	9.70%	6-Jan-23	100	CARE AA+; Stable
Debentures-Non Convertible Debentures	18-Jan-11	9.70%	18-Jan-23	100	CARE AA+; Stable
Debentures-Non Convertible Debentures	2-Feb-11	9.70%	2-Feb-21	100	CARE AA+; Stable
Debentures-Non Convertible Debentures	15-Apr-11	9.70%	15-Apr-21	150	CARE AA+; Stable
Debentures-Non Convertible Debentures	25-Apr-11	9.70%	25-Apr-21	50	CARE AA+; Stable
Debentures-Non Convertible Debentures	6-May-16	8.70%	6-May-26	250	CARE AA+; Stable
Debentures-Non Convertible Debentures	31-May-16	8.70%	31-May-25	250	CARE AA+; Stable
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-25	200	CARE AA+; Stable
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-26	200	CARE AA+; Stable
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-24	250	CARE AA+; Stable
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-25	250	CARE AA+; Stable
Debentures-Non Convertible Debentures	25-May-17	8.25%	25-May-27	150	CARE AA+; Stable
Debentures-Non Convertible Debentures	31-Aug-17	8.05%	31-Aug-24	150	CARE AA+; Stable
Debentures-Non Convertible Debentures	12-Apr-18	8.85%	12-Apr-28	300	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	235.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (05-Oct-18) 2)CARE AAA; Negative / CARE A1+ (15-May-18)	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)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	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	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	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 AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)
10.	Non-fund-based-Short Term	ST	-	-	-	1)Withdrawn (05-Oct-18) 2)CARE A1+ (15-May-18)	1)CARE A1+ (23-Aug-17)	1)CARE A1+ (07-Feb-17)
11.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17) 2)CARE AAA; Stable (18-May-17)	-
12.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	-	-

**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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