

The Great Eastern Shipping Company Limited

August 23, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short-term Bank Facilities	204.00	CARE A1+ [A One Plus]	Reaffirmed
Long/Short-term Bank Facilities	50.00	CARE AAA; Stable/A1+ [Triple A; Outlook: Stable/ A One Plus]	Reaffirmed
Total Facilities	254.00 (Rs. Two hundred fifty four crore only)		
Non-Convertible Debenture (NCD)	3635.00 (Rs. Three thousand six hundred and thirty five crore only)	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings 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 given its capital expenditure program 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.

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 9.78 years in the shipping segment and around 5 years in the offshore segment. Thus, the young fleet helps GESCO in fetching better charter rates, higher vessel utilization, lower operating costs in turn leading to better profitability margins. Further, in the current scenario of continuing industry downturn, younger fleet profile increases the probability of the asset being deployed.

Diversified fleet profile- GESCO 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 diversified revenue profile with the shipping and offshore business contributing around 61% and 39% respectively to the total consolidated revenue in FY17. The contribution from the offshore business has declined in FY17 to 39% from 47% in FY16; 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. PBILT margins for GESCO improved in FY17 mainly on account of higher rates for dry bulk carriers.

Comfortable capital structure and strong liquidity position- GESCO continues to maintain a comfortable capital structure on net debt basis, although the gearing level on a net debt basis has deteriorated as on March 31, 2017 when compared to that as on March 31, 2016. Increase in gearing level is mainly on account of purchase of 13 vessels, the company is adding vessels as they are available at attractive prices as well as GESCO expects the dry bulk market to firm up in the next 12 to 18 months. The liquidity position is also healthy and the company continues to maintain liquid funds of ~ Rs.2781.05 crore as on March 31, 2017 providing ample financial flexibility.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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Key Rating Weaknesses

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. Out of the present shipping fleet of 46 vessels, only 11 vessels are on medium/long term contracts. 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

Outlook for wet bulk segment

Charter rates in the wet bulk segment started increasing from Q2FY15. The charter rates picked up substantially in Q4FY15 and remained firm in FY16 when crude was below \$60/barrel owing to strategic reserve stock-piling and floating storage. However, charter rates declined in FY17 as the incentive of storing oil has reduced with oil prices remaining range-bound. Charter rates are expected to soften further in FY18 as oil prices are expected to remain range-bound and on account of likely increase in global capacity addition.

Outlook for dry bulk segment

The charter rates in the dry bulk segment started declining from Q1FY15 and remained subdued in FY16. The main reason for the decline was demand contraction of coal and iron ore from China (which it imports) on account of industrial slowdown coupled with persistent overcapacity of vessels. The Baltic dry index touched all time low during FY16 despite y-o-y decline in global capacity addition.

The charter rates in the dry bulk segment however improved in FY17 and expected to rise on account of revival of manufacturing activities in China and uptake in global trade scenario. In addition to this, higher scrapping has provided intermittent marginal uptick in dry bulk rates.

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 46 vessels, comprising of 30 tankers (12 crude carriers, 16 product carriers and 2 gas carriers) and 16 bulk carriers with an average age of 9.78 years (3.80 million dwt) as on August 10, 2017. 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. On a consolidated basis, the shipping and offshore business contributed around 61% and 39% respectively to the total revenue in FY17 as compared to 53% and 47% respectively in FY16.

On a standalone basis, during FY17, GESCO reported total operating income of Rs.2061 crore and PAT of Rs.603 crore as against total operating income of Rs.2090 crore and PAT of Rs.626 crore during FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2090.40	2061.32
PBILDT	1020.54	1088.71
PAT	625.67	602.52
Overall gearing (times)	0.62	0.86
Overall gearing on net debt basis (times)	0.03	0.32

Interest coverage (times)	5.57	4.41
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A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	-	50.00	CARE AAA; Stable / CARE A1+
Non-fund-based-Short Term	-	-	-	204.00	CARE A1+
Debentures-Non Convertible Debentures	3-Jul-09	9.80%	3-Jul-19	240	CARE AAA; Stable
Debentures-Non Convertible Debentures	20-Aug-09	9.75%	20-Aug-19	235	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-Nov-09	9.60%	11-Nov-19	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	24-Dec-09	9.19%	24-Dec-18	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	5-Jan-18	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	50	CARE AAA; Stable

Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	40	CARE AAA; Stable
Debentures-Non Convertible Debentures	8-Feb-10	9.35%	8-Feb-18	85	CARE AAA; Stable
Debentures-Non Convertible Debentures	8-Feb-10	9.35%	8-Feb-19	85	CARE AAA; Stable
Debentures-Non Convertible Debentures	6-Jan-11	9.70%	6-Jan-23	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-Jan-11	9.70%	18-Jan-23	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	2-Feb-11	9.70%	2-Feb-21	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	15-Apr-11	9.70%	15-Apr-21	150	CARE AAA; Stable
Debentures-Non Convertible Debentures	25-Apr-11	9.70%	25-Apr-21	50	CARE AAA; Stable
Debentures-Non Convertible Debentures	6-May-16	8.70%	6-May-26	250	CARE AAA; Stable
Debentures-Non Convertible Debentures	31-May-16	8.70%	31-May-25	250	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-25	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-Nov-16	8.24%	10-Nov-26	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-24	250	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-Jan-17	7.99%	18-Jan-25	250	CARE AAA; Stable
Debentures-Non Convertible Debentures	25-May-17	8.25%	25-May-27	600	CARE AAA; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	475.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)	1)CARE AAA (08-Jul-14)
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)	1)CARE AAA (08-Jul-14)
3.	Debentures-Non Convertible Debentures	LT	460.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)	1)CARE AAA (08-Jul-14)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (28-Jul-16)	1)CARE AAA (07-Jul-15)	1)CARE AAA (08-Jul-14)

5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	50.00	CARE AAA; Stable / CARE A1+	-	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)	1)CARE AAA / CARE A1+ (08-Jul-14)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	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 AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17) 2)CARE AAA (07-Sep-16)	-	-
8.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17)	-	-
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-17)	-	-
10.	Non-fund-based-Short Term	ST	204.00	CARE A1+	-	1)CARE A1+ (07-Feb-17)	-	-
11.	Debentures-Non Convertible Debentures	LT	600.00	CARE AAA; Stable	1)CARE AAA; Stable (18-May-17)	-	-	-

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