

## The Great Eastern Shipping Company Limited

October 27, 2020

### Ratings

Sr. No.	Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
1.	Proposed Non-Convertible Debentures	150.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
	Total Instruments	150.00 (Rs. One Hundred Fifty Crore Only)		

*Details of instruments in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of The Great Eastern Shipping Company Limited (GESCO) continues 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 operational efficiency and healthy capital structure. CARE also derives significant comfort from GESCO's stated policy to maintain sufficient cash balance at any point in time resulting in strong liquidity position. These rating strengths are partially tempered by risks arising due to uncertainty due to expected economic slowdown in global markets and consequent impact on charter rates across segments. The ratings continue to factor in the susceptibility of GESCO's profitability to volatility in the freight rates, since large proportion of its overall fleet is deployed at spot rate, exposure to foreign exchange rates, and inherent cyclical nature of the shipping industry. The ability of the company to gainfully deploy its assets amidst challenging economic environment at favourable rates and generate sufficient cash flows as envisaged would be a key rating monitorable.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade**

- Zero net debt on sustained basis.

#### **Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Any huge debt funded vessel acquisition resulting in deterioration in credit profile of the company and Total Debt/Operating EBIDTA more than 3.5x
- Any substantial decline in charter rates by more than 20% from current charter yields of GESCO across segments resulting in lower than expected cash accruals, profitability margins and deterioration in debt protection metrics.
- Any financial support extended to subsidiaries resulting in deterioration of overall financial risk profile of GESCO.

### 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. GESCO owns and operates 46 vessels, comprising 33 tankers (11 crude carriers, 17 product carriers and 5 gas carriers) and 13 dry bulk carriers ( total 3.69 million DWT) as on June 30, 2020.

Further, GESCO has a relatively younger fleet with an average age of 12.37 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 of markets and fetching better prices through sale of existing ones at higher valuations.

During FY20, the company sold a Suezmax carrier in December 2019. Further, the company has also purchased and sold LPG carrier (VLGC) in October 2020. The company has also purchased a second hand LR2 product tanker which has delivery scheduled in November 2020 with total cost of ~Rs.190 crore funded by debt of Rs.150 crore (NCD) and remaining by cash balance.

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

**Comfortable capital structure and debt coverage indicators**

Over the past few years, GESCO's debt had increased significantly due to increase in borrowings to fund vessel purchases. However, debt had reduced during FY19 and FY20 primarily on account of substantial NCD repayments during FY20. As result total debt reduced to Rs.3596.7 crores on March 31, 2020, as against Rs. 4114.96 crores as on March 31, 2019. The overall gearing considering total debt stood at 0.71x as on March 31, 2020 as against 0.81x as on March 31, 2019. Further as on June 30, 2020, Total debt stood at Rs.3560 crore. During FY20, interest coverage ratio improved to 3.36x as against 2.35x in FY19. The total debt/ GCA declined to 3.37x during FY20 as against 7.37x respectively during FY19 mainly due to increase in gross cash accruals. Overall gearing on net debt basis also improved from 0.36x as on March 31, 2019 to 0.26x as on March 31, 2020. During FY20, the company has bought back 3,810,581 equity shares at average price of 262.27/share aggregating to Rs. 99.94 crore. Further, GESCO has also provided Letter of comfort for bullet debt obligation of subsidiary company Greatship India Limited (GIL) in FY25 amounting to ~\$97 million. CARE factors in strong cash position of the company and expected sustainability for maintaining the same in assessment of overall financial risk profile. Hence, no support is expected from GESCO to subsidiary GIL.

**Key Rating Weaknesses*****Slowdown in industry and declining trend in charter rates over the years; however improved in FY20 and ability to sustain the same going forward remains key credit monitorable***

The performance of the shipping industry is linked with the global trade flows and the industry is therefore highly cyclical in nature. The industry was 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 were declining since 2016. Total operating income of GESCO increased by 8.2% from Rs.2866 crore in FY19 to Rs. 3121 crore in FY20 primarily led by robust performance in H2FY20 and reasonably strong freight rates during the year. The operating PBILDT margin improved from 29.49% in FY19 to 34.5% in FY20 and the PAT margin was positive to 8.9% in FY20 as against -0.67% in FY19. The improvement in performance was mainly driven by strong demand for crude storage due to significant decline in crude oil prices, resulting in spike in crude oil storage freight rates during Q3FY20. Freight rates for crude storage remained at average levels of ~\$35,620/day during H2FY20 due to COVID-19 resulting in strong demand for floating storage and huge oil supply pumped by Saudi Arabia coupled with lower vessel supply, although rates have moderated currently. Similarly product and LPG average freight rates also improved from \$14,194/day in FY19 to \$22,103/day in FY20, however dry bulk segment deteriorated due to low commodity production and global trade coupled with COVID-19 shutdown in China, and is expected to remain subdued going forward.

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 average utilization of the vessel capacity on account of significantly low oil prices. GIL's total operating income declined by 11% from Rs.956 crore in FY19 to Rs.846 crore in FY20. The company reported net loss of Rs.64.75 crore during FY20 mainly due to decline in charter rates and high depreciation expense reported for the vessels during the year.

***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 total shipping fleet of GESCO, 80-90% of the vessels are on spot charter historically with balance on time charter of various tenures. 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. As on June 30, 2020, the company has 16 vessels on time charter out of 46 vessels (~35% time charter and ~65% spot charter) since the company locked in time charter for some of its crude and LPG carriers at high rates during COVID-19. The strategy of the company regarding the fleet mix is to keep majority of its capacity open in order to take advantage of strong markets. Further, 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, however the company manages the risk by using various derivative instruments. Any significant movement in interest rates and foreign exchange rates results in MTM losses/gains which are reported in P&L (actual settlements and cash outflows incur at time of maturity).

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

GESCO has installed scrubbers on 2 during FY20 and plans to install on 4 additional vessels during FY21. The company expects the cost of installing scrubbers to be around \$2.5-3 million per vessel. The company expects total capex of about \$18 million for the scrubbers out of which the company has already spent ~\$13 million and balance ~5 million is yet to be incurred. Sufficient availability of 0.5% fuel being produced by the refining industry, requirement of more crude oil for processing the same, tightening of the supply of ships and spread between Low sulphur fuel and high sulphur fuel prices are few factors that could remain critical factors for bunker cost going forward. GESCO has installed BWTS (Ballast Water Treatment System) in

around 20% (9 vessels) of the vessels and the company plans to install BWTS in 35 additional vessels at the time of their next dry dock for the next 5 years.

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 monitorable.

#### **Liquidity: Strong**

The liquidity position of the company continues to remain healthy with cash and cash equivalents of Rs.2271 crore as on March 31, 2020 and Rs.2830 crore as on June 30, 2020. As a risk mitigation strategy GESCO maintains sufficient liquidity at any point of time to meet the debt servicing, envisaged capital expenditure and dividend payments for the next three years and additional buffer of ~\$100 million. GESCO maintains liquidity in the form of dollar denominated FDs, bank deposits or debt fund instruments with the investments having a maximum lock-in period of 12 months. The company is expected to generate gross cash accruals of ~Rs.1279 crore which is sufficient to cover total debt repayment obligations (repayment and interest) of ~565 crore in FY21.

**Analytical approach:** Standalone approach has been adopted factoring in exposure to GIL since the company has provided Letter of comfort for bullet debt obligation of GIL in FY25. CARE does not expect any financial support from the company to its subsidiaries in the offshore business and hence has not factored in financial profile of subsidiaries in the analysis of GESCO.

#### **Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Service sector 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 46 vessels, comprising 33 tankers (11 crude carriers, 17 product carriers and 5 gas carriers) and 13 dry bulk carriers with an average age of 12.37 years (3.70 million DWT) as on June 30, 2020. 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 and drilling services.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2885.21	3121.05
PBILDT	850.18	1065.90
PAT	-19.47	280.69
Overall gearing (times)	0.81	0.71
Overall gearing (on the basis of net debt) (times)	0.36	0.26
Interest coverage (times)	2.35	3.36

A: Audited

Note: The financials have been reclassified as per CARE standards

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**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 for this company:** Annexure 4

## Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance*	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Debentures-Non Convertible Debentures	-	8.05*	8 years from allotment date*	150.00	CARE AA+; Stable

\*yet to be placed

## 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	50.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (06-Jul-20)	1)CARE AA+; Stable / CARE A1+ (05-Jul-19)	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)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18)	1)CARE AAA; Stable

					(06-Jul-20)		2)CARE AAA; Negative (15-May-18)	(23-Aug-17)
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
8.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)
9.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-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)
11.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	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 (06-Jul-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (05-Oct-18) 2)CARE AAA; Negative (15-May-18)	-
13.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA+; Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	Nil
<b>B. Non-financial negative covenants</b>	
i. Payment of dividend	Declare or pay any dividend during any financial year unless it has paid the installment of principal and interest then due and payable on Debentures or has made provision satisfactory to Trustee for making such payment
ii. Management control	Change the management control of the Company resulting in promoters ceasing control over Company
iii. Sale of asset mortgaged (vessel)	Sell or dispose of the Mortgaged property or any material part thereof or create thereon any mortgage, lien or charge by way of hypothecation, pledge or otherwise howsoever or other encumbrance of any kind whatsoever other than permitted encumbrances

**Annexure 4: Complexity level of various instruments rated for this Company**

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

**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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### About CARE Ratings:

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### Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**