

RATING RATIONALE

15 Nov 2021

The Great Eastern Shipping Company Ltd.

Brickwork Ratings reaffirms the ratings for the Non-Convertible Debenture (NCD) issues aggregating to Rs.2350.00 Crores.

Particulars

Facilities/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Oct 2020)	Present
NCD	2650.00	2350.00	Long Term	BWR AAA (Stable)	BWR AAA (Stable) Reaffirmation
Total	2650.00	2350.00	INR Two Thousand Three Hundred and Fifty Crore Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings.

** Details of bank loan facilities/NCD/bonds/commercial paper is provided in Annexures-I

RATING ACTION / OUTLOOK

The rating reaffirmation, inter-alia, factors in the company's strong track record in the shipping industry. The Great Eastern Shipping Company Ltd. (GESCO or the company) is the largest non-government shipping company in terms of tonnage capacity, with a diversified fleet of 45 vessels in the shipping division and 19 vessels and 4 jack-up rigs in the offshore division, along with a dominant position in domestic and international markets. The rating also factors in the healthy liquidity position, comfortable debt protection metrics with prudent financial management policies and a well-established track record of shipping operations, with a fleet capacity of 3.63 mn DWT. It is further supported by a comfortable financial profile including a low gearing of 0.65x as of FY21 (on a consolidated basis). The debt coverage indicators are healthy and the company has a cash accrual generation of Rs.1659.90 crs (on a consolidated basis) in FY21 and cash and cash equivalents of Rs.3959.97 Crs (on a consolidated basis) as of FY21.

The rating is, however, constrained by the prolonged slowdown in the industry with freight and charter rates under pressure over the last three years due to overcapacity, volatility in crude production and price, and limited scrapping, along with consequent decline in the earnings of shipping and contract renewals at lower charter yields compared with earlier contracts in its offshore segments and a drop in E&P activities/spending from its peak. The rating is also affected by the vulnerability of the company's profitability to volatility in freight rates mainly due to a large spot deployment, slowdown in the global economy and challenging industry scenario due to the current pandemic situation and exposure to foreign exchange risks and cyclical cash flows inherent to the shipping business.

The outlook for the company has been kept stable, considering the improved operating performance of the company during FY21 and H1 FY22.

Going forward, the company's ability to ensure the optimal engagement/deployment of its fleet with the right mix of assets, improve its charter yields to improve shipping revenue,

generate adequate cash flows under the current business environment and strengthen its overall credit profile would be key rating sensitivities.

KEY RATING DRIVERS

Credit Strengths:-

Established Track Record and Experienced Management: Incorporated in 1948, GESCO is one of the oldest and largest non-government shipping companies in terms of tonnage capacity. The promoter family is actively involved in the company's day-to-day operations. The management consists of eminent industry professionals with extensive business experience. The company has appointed Mr. Urjit Patel as an additional and independent director w.e.f. 01 August 2020.

Diversified Revenue Profile with Global Presence: The company offers a wide range of services, including the transportation of crude oil, petroleum products, gas and dry bulk commodities in its shipping division, as well as carrying out offshore exploration and production (E&P) activities (by providing exploratory drilling rigs and offshore support vessels, among others.) through its 100% subsidiary Greatship (India) Limited. The company has a global presence through its subsidiaries across the world. The product tanker business constituted around 32% of the total revenues, followed by crude tanker (32%), dry bulk (18%) and LPG (18%) in FY21.

Fleet Profile: The company has a relatively young fleet, with an average age of around 12.13 years in the shipping segment and around 11.15 years in the offshore segment. This benefits the company in getting better charter rates and achieving higher operating efficiency. Currently, the company operates with 45 vessels (with a total capacity of 3.63 million dwt) in its shipping division, and 19 vessels and 4 jack-up rigs in its offshore division.

Strong Financial Risk Profile: GESCO has seen stable revenues over the years on account of efficiently deploying its fleet and offshore rigs. Its operating revenues (on a consolidated basis) decreased by 9% to Rs.3336.55 Crs in FY21 from Rs.3686.73 Crs in FY20. Revenue from the shipping business is at Rs. 2917.42 Crs and from offshore business is at Rs. 678.84 Crs for FY21. Due to Mark to Market (MTM) gains of Rs. 313.13 Crs and lower interest expenses, the company has recorded an improved PAT of Rs. 918.52 Crs for FY21 against PAT of Rs. 207.14 Crs for FY20. The overall gearing remained stable and reduced to 0.65x as of FY21, against 0.78x as of FY20.

For H1FY22 (on a consolidated basis), the co has recorded revenues of Rs. 1654.19 Crs and PAT of Rs. 235.42 Crs.

Credit Risks:-

Inherent cyclical nature of shipping industry and Losses in Offshore Business due to Prolonged Industry Slowdown: The shipping industry is largely dependent on the level of global economic activity. The business is highly capital intensive, cyclical and volatile in nature. Also, Shipping industry performance is directly linked to global trade flows. During the times of macroeconomic growth, demand for vessels increased leading to higher charter rates resulting in increase in profits for ship operators. Subsequently, the operators would invest in increasing fleet size in anticipation of future demand for vessels. On the contrary, in

an economic downturn, demand for vessels dip causing lower charter rates. Thereby impacting the ship operators with high debt and idle vessels

GIL's operational performance in the offshore segment depends on the crude oil & gas exploration & production industry. The charter rates are impacted by the volatility in crude prices. In the recent past the investment in the E & P industry has been low. Further, the number of oil field discoveries and field start ups has declined in the past two-three years. GIL reported loss of Rs. 131.12 crore on Total revenue from operations of Rs. 662.03 crore in FY21 as compared to loss of Rs. 60.04 crore on Total revenue from operation of Rs. 814.69 crore in FY20

Foreign Exchange Risks: GESCO's earnings and the majority of its operating expenditure are predominantly USD-denominated. Freight rates, as well as the sale values of ships, are determined in USD. The company has its liabilities also denominated in USD. Any significant movement in the currency or interest rates could impact the company's financials. While there is a natural hedge, the company is exposed to foreign currency and derivative risks (MTM losses).

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, Brickwork Ratings (BWR) has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has taken a consolidated view on the operational and financial performance of the company while arriving at rating.

RATING SENSITIVITIES

Going forward, the company's ability to ensure the optimal engagement/deployment of its fleet and the right mix of assets, improve its charter yields to improve higher shipping revenue, generate adequate cash flows under the current business environment and strengthen its overall credit profile would be key rating sensitivities.

Upward: The Outlook would remain Stable if the operating performance improves on account of improved charter yields, there is an improvement in fleet utilisation in the shipping and offshore business along with the right mix of fleet in Crude, Tanker and Dry bulk segments and improved global economic conditions resulting in a higher ship movement with an optimum increase in revenues and cash accruals generation.

Downward: The Outlook may be revised to Negative if the company fails to deploy its fleets, vessels and offshore rigs with long-term contracts in place, generate lower-than-expected revenues, and EBITDA and cash accruals.

LIQUIDITY POSITION: Strong

The liquidity of the company remains strong, with Rs.1659.90 Crs in cash accruals in FY21 (on a consolidated basis) as against CPLTD of Rs.616.36 Crs. Going forward, the debt repayment is expected to be in the range of Rs.500-600 Crs per year. Furthermore, it had current investments of Rs.1349.49 Crs in liquid mutual funds as of FY21. The liquidity position is comfortable, with the company maintaining a significant cash buffer (around 50% of its debt) to meet its debt obligations. The company has Cash and cash equivalents of Rs.1798.42 Crs and MF investments of Rs. 1107.52 Crs as on 30th Sept, 2021. Outstanding debt of about Rs. 3919.57 Crs as on 30th Sep, 2021.

COMPANY PROFILE

Incorporated in 1948, GESCO is the oldest and largest non-government shipping company in terms of tonnage capacity, with a fleet size of 45 vessels (3.63 mn dwt) in the shipping division and 19 vessels and 4 jack-up rigs in the offshore division. The company offers a wide range of services, including the transportation of crude oil, petroleum products, gas and dry bulk commodities in its shipping division, as well as carrying out offshore exploration and production activities (by providing exploratory drilling rigs and offshore support vessels, among others through its 100% subsidiary Greatship (India) Limited).

KEY FINANCIAL INDICATORS (in INR Crs)

FINANCIAL INDICATORS – ISSUER (Consolidated)

Key Parameters	Units	FY20	FY21
Result Type		Audited	Audited
Operating Income	Rs. Crs	3686.73	3336.55
EBITDA	Rs. Crs	1539.41	1459.41
PAT	Rs. Crs	207.14	918.52
Tangible Net-Worth	Rs. Crs	6794.86	7703.77
D: E Ratio	Times	0.78	0.65
Current Ratio	Times	3.49	3.55

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Most NCDs were unsecured in nature and having a bullet repayment at the end of the tenor, apart from Rs.300 Crs, and Rs.150 Crs which are secured by way of a pari passu charge on assets/fleets. The latest NCD of Rs. 150 Crs has been secured by way of an exclusive charge on ship(s) with a 1.20x cover at the market value of ship and additional security by way of a mortgage on immovable property. The proceeds of the NCDs were utilised towards funding the capital requirements of the company and general corporate purposes.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]:

S. No.	Instrument	Current Rating			Rating History							
		Type (Long Term/ Short Term)	Amount Outstanding (₹ Crs)	Rating	2020		2020		2019		2018	
					Date	Rating	Date	Rating	Date	Rating	Date	Rating
1.	NCD	Long Term	200.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)	22 Oct 2018	BWR AAA (Negative)
											30 Apr 2018	BWR AAA (Stable)
2.	NCD	Long Term	500.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)	22 Oct 2018	BWR AAA (Negative)
											30 Apr 2018	BWR AAA (Stable)
3.	NCD	Long Term	400.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)	22 Oct 2018	BWR AAA (Negative)
											30 Apr 2018	BWR AAA (Stable)
4.	NCD	Long Term	500.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)	22 Oct 2018	BWR AAA (Negative)
											30 Apr 2018	BWR AAA (Stable)
5.	NCD	Long Term	600.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)	22 Oct 2018	BWR AAA (Negative)
											30 Apr 2018	BWR AAA (Stable)
6.	NCD	Long Term	150.00	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	-	-	-	-	-	-
	Total		2350.00	INR Two Thousand and Three Hundred and Fifty Crore Only								

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

Analytical Contacts	
[Anshul Nagar] Primary Analyst [Board: +91 11 23412232] [anshul.n@brickworkratings.com]	[Vipula Sharma] [Director – Ratings and Head - Infrastructure Ratings] [Board: +91 080 40409940] [vipula.s@brickworkratings.com]
1-860-425-2742	I media@brickworkratings.com

The Great Eastern Shipping Company Ltd. (GESCO)
ANNEXURE I
INSTRUMENT (NCD/Bonds) DETAILS

Instrument	Issue Date	Amount in Crs. (Outstanding)	Coupon Rate	Maturity Date	ISIN Particulars
NCD	06-Jan-11	100.00	9.70%	06-Jan-23	INE017A08185
NCD	18-Jan-11	100.00	9.70%	18-Jan-23	INE017A08193
NCD	06-May-16	250.00	8.70%	06-May-26	INE017A08235
NCD	31-May-16	250.00	8.70%	31-May-25	INE017A08243
NCD	10-Nov-16	200.00	8.24%	10-Nov-25	INE017A08250
NCD	10-Nov-16	200.00	8.24%	10-Nov-26	INE017A08268
NCD	18-Jan-17	250.00	7.99%	18-Jan-24	INE017A08276
NCD	18-Jan-17	250.00	7.99%	18-Jan-25	INE017A08284
NCD	25-May-17	150.00	8.25%	25-May-27	INE017A08292
NCD	31-Aug-17	150.00	8.05%	31-Aug-24	INE017A07542
NCD	12-Apr-18	300.00	8.85%	12-Apr-28	INE017A07559
NCD	02-Nov-20	150.00	8.05%	02-Nov-28	INE017A07567
Total		2350.00	INR Two Thousand Three Hundred and Fifty Crores Only		

ANNEXURE II
Entities included in Consolidated Financials – GESCO

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
The Greatship (Singapore) Pte. Ltd., Singapore	100%	Full	Subsidiary
The Great Eastern Chartering LLC (FZC), Sharjah	100%	Full	Subsidiary
The Great Eastern Charting (Singapore) Pte. Ltd., Singapore	100%	Full	Subsidiary
The Great Eastern CSR Foundation, Mumbai	100%	Full	Subsidiary
Greatship (India) Ltd., Mumbai	100%	Full	Subsidiary
Greatship Global Offshore Services Pte. Ltd.*, Singapore	100%	Full	Subsidiary
Greatship Global Energy Services Pte. Ltd.*, Singapore	100%	Full	Subsidiary
Greatship (UK) Ltd.*, UK	100%	Full	Subsidiary
Greatship Oilfield Services Ltd.*, Mumbai	100%	Full	Subsidiary

* Wholly owned subsidiaries of Greatship (India) Ltd.

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