

The Great Eastern Shipping Company Limited
October 05, 2018

Ratings

Instruments/ Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	50.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Revised from CARE AAA; Negative/ CARE A1+ (Triple A; Outlook: Negative/ A One Plus)
Short-term Bank Facilities (Buyer's credit)	-	-	Withdrawn
Total Facilities	50.00 (Rs. Fifty crore only)		
Non-Convertible Debenture (NCD)	3,450.00 (Rs. Three thousand four hundred and fifty crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AAA; Negative (Triple A; Outlook: Negative)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities and instruments of The Great Eastern Shipping Company Limited (GESCO) factors in the decline in charter rates, especially in the crude tanker segment, due to slowdown in the industry, and concomitant decline in GESCO's profitability and gross cash accruals. The rating action also factors in the deterioration in GESCO's capital structure and debt coverage indicators. 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 ratings, however, 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.

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.

CARE has also withdrawn the rating assigned to GESCO's buyer's credit facility with immediate effect, as the company has repaid the facility in full and there is no amount outstanding under the facility as on date.

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 49 vessels, comprising 35 tankers (12 crude carriers, 17 product carriers and 6 gas carriers) and 14 dry bulk carriers (aggregating 3.98 million dwt). The company has contracted to sell 'Jag Arya' (Kamsarmax – a dry bulk carrier) on September 27, 2018, the delivery of which will be done by GESCO in Q3FY19.

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

Further, GESCO has a relatively younger fleet with an average age of around 10.90 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.

Healthy liquidity position

The liquidity position of the company continues to remain healthy with cash and cash equivalents of Rs.2805.66 crore as on June 30, 2018. 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.

Key Rating Weaknesses

Industry slowdown resulting in decline in charter rates and concomitant decline in GESCO's profitability and gross cash accruals (GCA)

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 FY18, the freight rates for crude tankers, product tankers and the gas carriers remained subdued, reflecting in GESCO's charter rates in these segments. Only the dry bulk segment witnessed an increase in the freight rates during FY18 and Q1FY19. The decline in charter rates and increase in operating and finance costs during the year resulted in a decline in profitability and gross cash accruals during the year. The PBILDT declined by 15% and the PAT declined by 73% in absolute terms to Rs.928.07 crore and Rs.160.19 crore respectively in FY18. The operating costs increased with the increase in the number of vessels operated (net increase of 3 vessels in FY18), increase in oil prices during the year as well as increase in the employee costs. The GCA generated during FY18 have also declined by 35% to Rs.443.04 crore. During Q1FY19, the company has reported TOI of Rs.672.16 crore with net loss of Rs.232.87 crore as against TOI of Rs.458.98 crore and net profit of Rs.72.35 crore during Q1FY18.

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 29.7% to Rs.1001.54 crore in FY18. The company reported net loss of Rs.374.88 crore during FY18.

Deterioration in capital structure and debt coverage indicators

GESCO's net debt increased significantly over the last two years from Rs. Rs.153.20 crore as on March 31, 2016 to Rs.1732.44 crore as on March 31, 2018 due to increase in borrowings to fund vessel purchases. Consequently, the overall gearing on net debt basis deteriorated to 0.33x as on March 31, 2018 and stood at 0.34x as on June 30, 2018. The overall gearing considering total debt deteriorated to 0.81x as on March 31, 2018 and further to 0.90x as on June 30, 2018. The debt coverage indicators also declined during this period, with interest coverage ratio of 2.83x in FY18 as against 4.44x in FY17. The total debt/ GCA and net debt/ GCA also deteriorated to 9.53x and 3.91x respectively during FY18 as against 6.48x and 2.42x respectively during FY17.

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

Earlier, GESCO entered into long term time charter 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 low time charter rates. Out of the present shipping fleet of 49 vessels, majority of the vessels are on spot charter. The company is 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. Further, significant portion of GESCO's revenues are dollar denominated, whereas a large portion of its borrowings is Rupee denominated, thus exposing the company to foreign currency risk. The company manages the risk by using various derivative instruments.

Recent IMO regulations for the shipping industry

In line with the IMO Regulations GESCO has installed BWTS in around 20% of the vessels and plans to install BWTS in the remaining vessels at the time of their next dry dock. Further, GESCO is in the process of evaluating the impact of using a blended mix of oil in its vessels in the operating costs instead of installing scrubbers for meeting the IMO Regulations on usage of low sulphur fuel. GESCO envisages a capital expenditure of around USD 30-35 million (equivalent to Rs.216-252 crore) on installation of the BWTS in the next few years. This apart, installation of scrubbers will entail a capital cost of around USD 3 million per vessel. 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.

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 family 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 49 vessels, comprising 35 tankers (12 crude carriers, 17 product carriers and 6 gas carriers) and 14 dry bulk carriers (aggregating 3.98 million dwt). Its wholly owned subsidiary, Greatship (India) Limited (GIL) 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)	FY17 (A)	FY18 (A)
Total operating income	2061.32	2340.46
PBILDT	1096.55	928.07
PAT	601.39	160.19
Overall gearing (on the basis of total debt) (times)	0.86	0.81
Overall gearing (on the basis of net debt) (times)	0.32	0.33
Interest coverage (times)	4.44	2.83

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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 AA+; Stable / CARE A1+
Non-fund-based-Short Term	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures	3-Jul-09	9.80%	3-Jul-19	240	CARE AA+; Stable
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	24-Dec-09	9.19%	24-Dec-18	100	CARE AA+; Stable
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	50	CARE AA+; Stable
Debentures-Non Convertible Debentures	6-Jan-10	9.40%	6-Jan-19	40	CARE AA+; Stable
Debentures-Non Convertible Debentures	8-Feb-10	9.35%	8-Feb-19	85	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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures					

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 AA+; Stable	1)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)	1)CARE AAA (07-Jul-15)
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	1)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)	1)CARE AAA (07-Jul-15)
3.	Debentures-Non Convertible Debentures	LT	460.00	CARE AA+; Stable	1)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)	1)CARE AAA (07-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)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)	1)CARE AAA (07-Jul-15)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	50.00	CARE AA+; Stable / CARE A1+	1)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)	1)CARE AAA / CARE A1+ (07-Jul-15)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)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	215.00	CARE AA+; Stable	1)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 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 AAA; Negative (15-May-18)	1)CARE AAA; Stable (23-Aug-17)	1)CARE AAA; Stable (05-Jan-17)	-

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
10.	Non-fund-based-Short Term	ST	-	-	1)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 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 AAA; Negative (15-May-18)	-	-	-

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