

## RATING RATIONALE

06 Dec 2022

### 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 (15 Nov 2021)	Present
NCD	2350.00	<b>2350.00</b>	Long Term	BWR AAA (Stable) Reaffirmation	<b>BWR AAA (Stable) Reaffirmation</b>
<b>Total</b>	2350.00	<b>2350.00</b>	<b>INR Two Thousand Three Hundred and Fifty Crore Only</b>		

\*Please refer to the BWR website [www.brickworkratings.com/](http://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 43 vessels in the shipping division and 18 vessels and 4 jack-up rigs in the offshore division, along with a dominant position in domestic and international markets.

It continue to derive strength from the long-standing presence of close to seven decades in the shipping business, demonstrated track record of operations across various business cycles, extensive experience of promoters, diversified fleet with low average age of vessels, (12.96 years, as on November 30, 2022), strong market position with presence across the product, crude, liquefied petroleum gas (LPG), and bulk segment, low counterparty risk with reputed clientele. 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 3.44 mn DWT as on November 30, 2022.

The ratings also factor in continued satisfactory performance reported during FY22 (refers to the period April 01 to March 31) with revenue growth of 6% in core shipping business and comfortable earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin and return indicators. Significant increase in dry bulk charter rates (y-o-y growth of about 148% in FY22) compensated for the moderation in rates in the tanker segment (~y-o-y decline of 52% in crude segment and ~ 40% in the product segment), thereby enabling the revenue growth. The industry outlook for the medium term is also expected to remain favourable with a rise in the charter rates for the product/crude segment as well as stronger charter rates for the bulk segment, although the same has declined from the peak levels witnessed in FY22.

The rating strengths are tempered by the risk associated with volatility in charter rates considering nearly 80% of its fleet is deployed on spot basis and inherent cyclical nature and regulatory risk related to the shipping industry.

The outlook for the company has been kept stable, considering the significant improvement in the operating and financial performance of the company during H1 FY23.

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 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.

### **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.

**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.

**Fleet Profile:** The company has a relatively young fleet, with an average age of around 12.19 years of 18 offshore vessels and around 10.81 years of 4 jack up rigs. This benefits the company in getting better charter rates, competitive advantage and achieving higher operating efficiency. As on November 30, 2022, GESCO owns and operates 43 vessels with deadweight tonnage (DWT) of 3.44 million and average age of fleet as 12.96 years. Out of the entire fleet, close to 58% of the fleet capacity (in terms of DWT) operates in the petrol/crude tanker segment, 10% in the gas tanker segment and balance 32% in the dry bulk segment. The company also operates offshore business through its wholly-owned subsidiary, Greatship India Limited (GIL). GIL has 4 jack-up rigs and 18 offshore-support vessels.

### **Strong Financial Risk Profile and Conservative Risk Management Policy:**

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) improved by 5.17% to Rs. 3,508.94 crore in FY22 as against Rs. 3336.55 crore in FY21. Revenue from the shipping business is at Rs. 2977.84 crore (FY21: Rs 2917.42 crore) and from offshore business is at Rs. 718.58 crore (FY21: Rs 678.84 crore) during FY22. Due to fall in the charter rates during FY22, GESCO witnessed a deterioration in PAT at Rs. 629.68 crore during FY22 as against Rs 918.52 crore in FY21. The overall gearing remained stable and reduced to 0.57x as of FY22 against 0.65x as of FY21. With strong accruals reported, the debt coverage metrics have always been comfortable.

GESCO's financial performance improved in H1FY23 (on a consolidated basis), the co has recorded operating income of Rs 2,813.45 crore (H1 FY22: Rs 1,654.19 crore) and PAT of Rs. 1,225.87 Crs. (H1 FY22: Rs 235.42 crore).

The company has conservative risk management policies covering forex, treasury and liquidity management, given its presence in a highly cyclical industry. While the earnings and expenses are both in foreign currency, thereby providing natural hedge, a large part of liability is in the domestic currency (INR). To mitigate the forex risk, the company through interest rate swaps and forward contracts has formed synthetic fixed rate USD loans. By entering currency swap, the company reports Mark to Market (MTM) changes which are routed through profit and loss accounts.

### **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

**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. 1458.70 crore in cash accruals in FY22 (H1 FY23: Rs 1492.28 crore) as against Rs 1659.90 Crs in cash accruals in FY21 (on a consolidated basis) as against CPLTD of Rs. 795.30 crore in FY22. (H1 FY23: Rs 1056.22 crore). Going forward, the debt repayment (consolidated basis) is expected to be in the range of Rs. 1000+ crore per year. Furthermore, it had cash and cash equivalents of Rs. 3471.17 crore as of FY22.

The liquidity position is comfortable, with the company maintaining a significant cash buffer (around 50% of its debt) to meet its debt obligations. GESCO (standalone basis) has a well defined liquidity policy whereby it maintains cash and cash equivalent to meet next 3 years opex, admin expenses, dry docking expenses, debt servicing commitments, capital commitments, and dividend payments plus next 3 years rolling revenues which is calculated based on 20 years lowest freight rates minus US\$100 million cash.

A stress test is conducted on a quarterly basis to ensure adherence to the policy framework. GESCO maintains liquidity in the form of bank deposits or liquid funds. The working capital cycle is also lean with recovery of bills within 24 days.

Given the above, GESCO will be adequately able to meet the upcoming NCD repayment of Rs 200.00 crore in FY23.

## **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 43 vessels (3.44 mn DWT, as on November 30, 2022) in the shipping division and 18 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	FY21	FY22	H1 FY23
Result Type		Audited	Audited	Unaudited
Operating Income	Rs. Crs	3336.55	3508.94	2,813.45
EBITDA	Rs. Crs	1459.41	1564.08	1399.65
PAT	Rs. Crs	918.52	629.68	1225.87
Tangible Net-Worth	Rs. Crs	7703.77	8051.30	9133.81
D: E Ratio	Times	0.65	0.57	0.46
Current Ratio	Times	3.55	3.40	3.84

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

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

S. N o.	Instru ment	Current Rating			Rating History							
					2021		2020		2020		2019	
		Type (Long Term/ Short Term)	Amount Outstan ding (₹ Crs)	Ratin g	Date	Rating	Date	Ratin g	Date	Rating	Date	Rating
1.	NCD	Long Term	200.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)
2.	NCD	Long Term	500.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)
3.	NCD	Long Term	400.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)
4.	NCD	Long Term	500.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)

5.	NCD	Long Term	600.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	01 Sep 2020	BWR AAA (Stable)	25 Oct 2019	BWR AAA (Negative)
6.	NCD	Long Term	150.00	BWR AAA (Stable)	15 Nov 2021	BWR AAA (Stable)	28 Oct 2020	BWR AAA (Stable)	-	-	-	-
<b>Total</b>			<b>2350.00</b>	<b>INR Two Thousand and Three Hundred and Fifty Crore Only</b>								

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

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

Analytical Contacts	
<b>Ronojyoti Deb</b> Senior Manager- Ratings <a href="mailto:ronojyoti.d@brickworkratings.com">ronojyoti.d@brickworkratings.com</a>	<b>Chintan Dilip Lakhani</b> Director – Ratings <a href="mailto:chintan.l@brickworkratings.com">chintan.l@brickworkratings.com</a>
1-860-425-2742	I <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount in Crs. (Outstanding)</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
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
<b>Total</b>		<b>2350.00</b>	<b>INR Two Thousand Three Hundred and Fifty Crores Only</b>		

**The Great Eastern Shipping Company Ltd. (GESCO)**  
**ANNEXURE II**  
**Entities included in Consolidated Financials**

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.

**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings :** Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER :** Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.



BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.