

## Rating Rationale for The Great Eastern Shipping Co. Ltd's long-term unsecured Non-Convertible Debentures Issue of ₹ 500 Crore with tenor up to 15 years

**NCD Issue Rating: BWR AAA**

**Outlook : Stable**

Brickwork Ratings has assigned **BWR AAA (Pronounced BWR Triple A)** for The Great Eastern Shipping Co. Ltd.'s (G E Shipping) Issue of Unsecured Non Convertible Debentures (NCD) of ₹ 500 Crore with a tenor up to 15 years. Brickwork Ratings '**BWR AAA**' stands for an instrument that is considered to offer **BEST** credit quality in terms of timely servicing of principal and interest obligations.

The Rating factors, inter alia, economies of scale, revenue characteristics, operating efficiency, and return on capital and management quality. BWR has relied on the audited financial results, projected financials, annual report for FY2010, unaudited financial results for Q2 of FY11, and the information and clarification provided by G E Shipping.

### Outstanding Ratings

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History
						Rating As on
Unsecured NCD	₹ 250 crore	BWR AAA (Stable)	Rating Reaffirmed	August, 2009	August, 2019	BWR AAA (Stable) August 2009
Unsecured NCD	₹ 200 crore	BWR AAA (Stable)	Rating Reaffirmed	October, 2009	October, 2019	BWR AAA (Stable) October 2009
Unsecured NCD	₹ 500 crore	BWR AAA (Stable)	Initial Rating	December, 2009	December, 2018	BWR AAA (Stable) December 2009
Unsecured NCD	₹ 500 crore	BWR AAA (Stable)	Initial Rating	November, 2010	November, 2025	BWR AAA (Stable) November, 2010

### Background

G E Shipping is India's largest private sector shipping company. It started as a sea-logistics support shipping line six decades ago as a family trading business (owned by the Sheths and the Bhiwandiwallas). Later it diversified into areas like offshore oil field services.

G E Shipping's two major areas of business are:

- **Shipping division:** Transportation of crude oil, petroleum products, gas and dry bulk commodities.
- **Offshore division:** Offers wide range of services to oil companies including carrying out offshore exploration and production activities by providing exploratory drilling rigs, offshore support vessels, tugs, construction barges, etc.

Both the shipping and offshore divisions have been awarded the ISO 9001:2000 standard certification by DNV. With more than 60 years of experience, a large and diversified fleet and strong financials, the company aims to capitalize on the opportunities in marine logistics, in the energy sector and offshore oil field services also.

In FY10, the company's tanker business contributed to 83% of the net revenues and 87% of the operating profit. Its dry bulk fleet business contributed 17% of the net revenues and 13% of the operating profits. The tanker fleet stood at 32 tankers aggregating 2.48 million, with an average age of 10.6 years and the dry bulk fleet stood at 6 vessels aggregating 0.41 million dwt, with an average age of 13.6 years.

The Company's subsidiary, Greatship (India) Limited, has achieved significant size of operations and has added ₹ 82.42 crore to the consolidated net profit to the Company. The coming year is likely to see a much bigger contribution from them as they have 14 offshore support vessels with an average age of below 3 years and total new building orders for the company are for 9 vessels, expected to be delivered in FY11 & FY12.

### **Management Profile:**

The Great Eastern Shipping Company Limited came into being in 1948. The Chairman of the company was Mr. A. H. Bhiwandiwalla, while Mr. Vasant Sheth, was the Managing Director. Mr. Sheth handled and managed the company, assisted by Kanaiyalal Sheth. Bhiwandiwalas have withdrawn and the management now solely rests with Sheths. Mr. K.M. Sheth is now the Executive Chairman of GE Shipping. Mr. Bharath K. Sheth is the Managing Director and also the Deputy Chairman of the company.

GE Shipping's Board of Directors comprises of eminent people from the industry and corporate world. Operations of the company are managed by professionals with relevant industry and management experience.

### **Financial Performance:**

In FY10, GE Shipping was able to manage its profit despite slowdown in shipping business globally and volatility in the freight market. For FY10 on a standalone basis, income from operations decreased to ₹ 2087.53 Crore as compared to ₹ 3172.33 Crore in FY09. The Company's Net profit decreased to ₹ 395.75 Crore in FY10 as compared to ₹ 1384.82 Crore in FY09 mainly due to decrease in earnings on an average TCY of \$ 22,300/day (previous year \$41,200/ day) in crude tanker segment and an average TCY of \$ 20,300/day (previous year \$39,800/ day) in dry bulk segment.

On positive side, Net-worth increased to ₹ 5371.12 Crore in FY10 from ₹ 4928.22 Crore in FY09. The company's total Debt to equity ratio marginally increased to 0.70 in FY10 from 0.66 in FY09. Borrowings increased to ₹ 3668.89 Crore in FY10 from ₹ 3066.55 Crore in FY09 mainly due to increase in unsecured loan of ₹ 950 Crore as compared to nil in previous year, to meet its Capex plans. The Company's ROCE and profitability margins decreased to 6.75% and 18.96% in FY10 from 21.47% and 43.65% in FY09 respectively. Its investments increased to ₹ 3251.00 Crore in FY10 as compared to ₹ 1250.96 Crore in FY09 into various unquoted mutual funds.

The unaudited financial results of H1 FY11 declared by the Company show that for the half year ending September 2010 the company's income from operation decreased by 27% to ₹ 786.26 Crore in H1 FY11 compared to ₹ 1075.31 Crore in H1 FY10 mainly due to decrease in gain on sale of ships to ₹ 50.45 crore in H1 FY11 from ₹ 173.26 crore in H1 FY10. Net profit decreased to ₹ 218.92 crore in H1 FY11 from ₹ 223.05 crore in H1 FY10, mainly due to decrease in average TCY (\$ per day) in the crude, product and dry bulk carriers categories and due to slow down in crude oil prices.

For FY10 on a consolidated basis, income from operations decreased to ₹ 3075.51 Crore as compared to ₹ 4123.93 Crore in FY09. The Company's Net profit decreased to ₹ 512.76 Crore in FY10 as compared to ₹ 1417.83 Crore in FY09. However, Its Net-worth increased to ₹ 5709.77 Crore in FY10 from ₹ 5232.10 Crore in FY09. The company's total debt to equity ratio increased

slightly to 0.98 in FY10 from 0.87 in FY09. Borrowings increased to ₹ 5370.16 Crore in FY10 from ₹ 4265.92 Crore in FY09.

On a consolidated basis, the unaudited financial results of H1 FY11 declared by the Company show that for the half year ending September 2010 its income from operation decreased by 14% to ₹ 1345.26 Crore in H1 FY11 compared to ₹ 1556.81 Crore in H1 FY10 mainly due to decrease in gain on sale of ships to ₹ 69.99 crore in H1 FY11 from ₹ 173.26 crore in H1 FY10. However, Net profit increased to ₹ 340.45 crore in H1 FY11 from ₹ 262.64 crore in H1 FY10, mainly due to reduction in operating expenses of ₹ 746.02 Crore in H1 FY11 as compared ₹ 1068.61 Crore in H1 FY10, foreign currency gain of ₹ 8.32 Crore in H1 FY11 as compared to loss of ₹ 110.16 Crore in same period last year, increase in employee cost and reduction in hired chartered ships to ₹ 174.12 crore in H1 FY11.

Key financial ratios, balance sheet and P&L for the period FY08 – FY10 and the performance for half year ended September 2010 have been given in Annexure I, II, III and IV respectively.

### **Management of Risk:**

As a part of its risk management, the company has a mix of long term time charters, contracts of affreightments to de-risk the revenues to some extent. It has 46% of its revenues from time charters and 54% from spot charters in FY10. The company is managing risks as an integral part of its operations in terms of technical risk, market risk and financial risk. GE Shipping's Enterprise Risk Management entails hedging the receivables as well as entering into forward contracts for Bunker (i.e. fuel) expenses. The risk management framework involves regular review of risk status, risk exposure and steps taken for mitigation of risks, by designated senior management committees as well as by the Company's Board.

### **Industry Scenario- Shipping Sector:**

The near term outlook for the dry bulk as well as the tanker space is challenging. The global scenario is still uncertain, particularly in wake of the ongoing Eurozone sovereign debt crisis and things therefore remain somewhat shaky for the shipping industry. This is likely to keep some pressure on the freight rates. Of late, demand from shippers has seen some uptick as reflected in the improvement in traffic handled by major ports. However, the supply side pressure is likely to ease/ rebalance on Pick up in scrapping activity and Shrinking of the order book. Global trade is likely to continue recovering over the current fiscal, helping the Indian shipping industry.

## Rating Outlook:

The company has very low Debt- Equity and healthy return on capital. It has substantial cash reserves, which adds to its financial strength. Its diversification into offshore and energy business is likely to add further stability to its overall operations. GE Shipping, with its dynamic management, active risk management practices and consistent performance, has shown its ability to manage difficult situations in the past. Though the Company is likely to face pressures on margins in the short term, BWR expects GE Shipping to display such characteristics to overcome the present challenging times also successfully, maintain its excellent track record of debt servicing and continue to retain its leadership in the Indian Shipping Industry.

Analysts	Media				
<p><b>Mukesh Mahor</b> <a href="mailto:mukesh.m@brickworkratings.com">mukesh.m@brickworkratings.com</a></p> <p><b>Nishant Anshul</b> <a href="mailto:nishant.a@brickworkratings.com">nishant.a@brickworkratings.com</a></p>	<p><b>Anitha G</b> <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a></p> <tr> <th style="background-color: #800040; color: white;">Relationship Contact</th> <td> <p><b>K N Suvarna</b> <b>Senior VP – Business Development</b> <a href="mailto:kn.suvarna@brickworkratings.com">kn.suvarna@brickworkratings.com</a></p> </td> </tr> <tr> <td colspan="2" style="text-align: center;"><b>Phone: 1-860-425-2742</b></td> </tr>	Relationship Contact	<p><b>K N Suvarna</b> <b>Senior VP – Business Development</b> <a href="mailto:kn.suvarna@brickworkratings.com">kn.suvarna@brickworkratings.com</a></p>	<b>Phone: 1-860-425-2742</b>	
Relationship Contact	<p><b>K N Suvarna</b> <b>Senior VP – Business Development</b> <a href="mailto:kn.suvarna@brickworkratings.com">kn.suvarna@brickworkratings.com</a></p>				
<b>Phone: 1-860-425-2742</b>					

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<b>The Great Eastern Shipping Co. Ltd</b>			
<b>Annexure I: Balance sheet (Standalone)</b>			
(₹ In Crore)	2010	2009	2008
<b>Sources of Funds</b>			
Shareholders' Funds	5371.12	4928.22	4173.39
Capital	152.29	152.29	152.27
Reserves and Surplus	5218.83	4775.93	4005.10
<b>Loan Funds</b>			
Secured Loans	2718.89	3066.55	2484.58
Unsecured Loans	950.00	0.00	0.00
<b>TOTAL</b>	<b>9040.01</b>	<b>7994.77</b>	<b>6657.97</b>
<b>Application of Funds</b>			
Fixed Assets	<b>4825.58</b>	<b>5374.01</b>	<b>4832.59</b>
Gross Block	6286.93	6540.39	6204.26
Less : Depreciation	2015.10	1801.03	1729.90
Net Block	<b>4271.83</b>	<b>4739.36</b>	<b>4474.36</b>
Ships under Construction/Capital work-in-progress	553.75	634.65	358.23
<b>Investments</b>	<b>3251.00</b>	<b>1250.96</b>	<b>921.35</b>
<b>Current Assets, Loans and Advances</b>	<b>1528.09</b>	<b>2163.42</b>	<b>1362.42</b>
Less: Current Liabilities and Provisions	564.66	793.62	458.39
Net Current Assets	963.43	1369.80	904.03
<b>TOTAL</b>	<b>9040.01</b>	<b>7994.77</b>	<b>6657.97</b>

<b>The Great Eastern Shipping Co. Ltd</b>			
<b>Annexure II: Profit and Loss Account (Standalone)</b>			
<b>(Rs. In Crore)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Income</b>			
Income from Operations	2087.53	3172.33	3062.75
Other Income	157.86	192.41	140.76
<b>Total</b>	<b>2245.39</b>	<b>3364.74</b>	<b>3203.56</b>
<b>Expenditure</b>			
Operating Expenses	1037.04	1259.41	1203.50
Administration & Other Expenses	286.96	113.51	106.88
Interest & Finance charges	142.97	153.64	149.28
Depreciation	346.46	348.49	340.95
Impairment loss on vessel	-	70.00	-
<b>Total</b>	<b>1813.43</b>	<b>1945.05</b>	<b>1800.60</b>
<b>Profit before tax</b>	<b>431.96</b>	<b>1419.69</b>	<b>1402.93</b>
<b>Net Profit</b>	<b>395.75</b>	<b>1384.82</b>	<b>1356.81</b>

<b>The Great Eastern Shipping Co. Ltd</b>				
<b>Annexure III: Key Ratios</b>				
	<b>Standalone</b>		<b>Consolidated</b>	
<b>Key Ratios</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Debt –Equity (x)	0.70	0.66	0.98	0.87
Interest Coverage (x)	5.34	11.26	4.45	9.76
DSCR (x)	1.09	3.25	0.89	3.21
Net Worth (₹ Crore)	5371.12	4928.22	5709.77	5232.10
Profitability Margin (%)	18.96	43.65	16.67	34.38
ROCE (%)	6.75	21.47	7.45	19.76
Net Cash Accruals (%)	19.80	51.45	15.30	42.34
Current Ratio (x)	2.70	1.82	1.18	1.82

**The Great Eastern Shipping Co. Ltd**

**Annexure IV: H1 FY2011**

( <b>₹</b> In Crore)	<b>Standalone</b>		<b>Consolidated</b>	
	<b>H1 FY11</b>	<b>H1 FY10</b>	<b>H1 FY11</b>	<b>H1 FY10</b>
Total Income	786.26	1075.31	1345.26	1556.81
Operating Expenses	418.29	642.54	746.02	1068.61
PBDIT	367.97	432.77	599.24	488.20
PBDIT(excl gain on sale of ships)	317.52	259.51	529.25	314.94
Net Profit	218.92	223.05	340.45	262.64