

**THE GREAT EASTERN
SHIPPING COMPANY LIMITED**
CIN: L35110MH1948PLC006472



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Our Ref.: S/162/2018/JMT

October 22, 2018

BSE Limited

1st Floor, Phiroze Jeejeebhoy Towers,
Dalal Street,
MUMBAI – 400 001

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor, Plot No. C/1,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051

Dear Sir,

Pursuant to Regulation 30(6) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Regulations'), we wish to inform that Brickwork Ratings India Private Limited has revised the credit rating for the facilities of the Company as under:

Facilities	Amount (Rs. crore)	Present Rating	Rating Action
Listed secured/ unsecured, redeemable NCDs	3210.00	BWR AAA; (Outlook: Negative)	Revised from BWR AAA; (Outlook: Stable)

A Copy of the press release from Brickwork Ratings India Private Limited covering their rationale for revision in credit rating is enclosed for your information.

You are requested to kindly take note of the above.

Thanking You,
Yours faithfully,

For **The Great Eastern Shipping Co. Ltd.**

Jayesh M. Trivedi
President (Sec'l. & Legal) & Company Secretary

Rating Rationale

THE GREAT EASTERN SHIPPING COMPANY LIMITED

22 Oct 2018

Brickwork Ratings reaffirms BWR AAA with revision in Outlook to Negative for The Great Eastern Shipping Company Limited's ('GESCO' or the Company) outstanding, listed, secured/unsecured, redeemable Non Convertible Debentures (NCDs) of Rs. 3210.00 Crs

Particulars:

Instruments #	Previous (Rs. Crs) Apr 2018	Present# (Rs. Crs) Oct 2018	Tenure	Previous Rating Apr 2018	Present Rating ¹ Oct 2018
Listed, secured/unsecured, redeemable NCDs	3210.00	3210.00*	Long Term	BWR AAA (Pronounced as BWR Triple A) Outlook: Stable	BWR AAA (Pronounced as BWR Triple A) Outlook: Negative Reaffirmed with revision in Outlook to Negative from Stable
Total	3210.00	3210.00 (Rupees Three Thousand Two Hundred and Ten Crores Only)			

¹ Please refer to BWR website www.brickworkratings.com for definition of the ratings

* Outstanding NCDs as on 17 Oct 2018; # Annexure II provides ISIN wise details of rated NCDs

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY18, unaudited Q1FY19 financials, publicly available information and information/clarifications provided by the Company's management.

The rating reaffirmation continues to reflect the company's strong track record in the shipping industry, longstanding and established relationships with charterers and shipyards, dominant position in the domestic and global markets backed by a sizeable and diversified fleet, relatively younger age profile of the vessels resulting in operational efficiencies, healthy liquidity position, comfortable capital structure and prudent financial management policies. The rating, however, remains constrained by the prolonged slowdown in the industry with freight and charter rates under pressure due to overcapacity woes, lower crude production, dearth of cargoes and limited scrapping, consequent decline in the earnings of the shipping and offshore segments, vulnerability of the company's profitability to the volatility in freight rates due to large spot deployment, susceptibility to risk of low fleet deployment arising from challenging industry scenario, exposure to foreign



exchange risks with earnings being skewed on account of losses arising from foreign currency swap contracts related to borrowings and cyclical cash flows inherent in the shipping business.

Going forward, the Company's ability to ensure optimal engagement of its fleet and the right mix of assets, improve its ship revenue days and cash flows under the current business environment and strengthen its overall credit profile would be the key rating sensitivities. The company's ability to ensure compliance with the IMO regulations entailing higher capex requirements would also be a key monitorable.

Rating Outlook: Negative

The revision in the Outlook to Negative reflect the lower than anticipated operating performance of the company due to the continued slowdown in the shipping industry. Despite recent positive trends in the freight rate environment, a meaningful recovery in the industry is likely to take some time. BWR believes that the Company would be able to weather the depressed markets better than most players in the business with its positive track record of managing costs and customer relationships. The rating outlook may be revised to 'Stable' as and when there is a revival in the industry and the operating performance of the company shows improvement with material growth in revenues, profitability and credit metrics.

Key rating drivers

Credit Strength :

Established Track Record and experienced Management : Incorporated in 1948, GESCO is the oldest and largest non-government shipping Company in terms of tonnage capacity. The promoter family is actively involved in the day-to-day operations of the company. The management comprises eminent industry professionals with extensive business experience.

Diversified Revenue Profile with Global Presence: The Company offers a wide range of services including 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, offshore support vessels, tugs, construction barges, etc.) 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 younger fleet with an average age of around 10.90 years in the shipping segment and around 7.13 years in the offshore segment. This benefits the Company in getting better charter rates and achieving higher operating efficiency. Currently, the Company operates 49 vessels (Total Capacity of 3.98 million dwt) in its shipping division and 19 vessels and 4 jack-up rigs in its offshore division. During this fiscal, the company has sold one ship, has contracted to sell 'Jag Arya' (its 2011 built Kamsarmax – a dry bulk carrier) and is in the process of selling 2 more. This is expected to lead to cash release of almost USD 45 mn for this financial year.



Comfortable Liquidity Position: - The liquidity position is comfortable with the company maintaining significant cash buffer (around 50% of its debt) to meet its debt obligations and ride out the rough markets. The company had cash balances of around Rs.3700 crs as on 31 Mar 2018. Currently, the company has reported around USD 350 mn cash balance, indicating its financial flexibility. BWR draws strength from the stated position of GESCO's management to maintain sufficient cash balances at any point of time.

Credit Weakness:

Industry Scenario: Shipping industry is largely dependent on the level of economic activities in the world. The business is highly capital intensive, cyclical and volatile in nature. With challenging market fundamentals, lingering overcapacity and multiple year lows in freight rates for a majority of the company's asset classes, the charter rates witnessed a drop in FY17 and the position continued through FY18. The offshore industry experienced a 30 years low. Volatile freight rates are a major concern which hamper the growth of shipping companies in a market with limited access to capital. The overall depressed market conditions also impacted the performance of GESCO. The company focused on utilization of its assets and hence contracted at best available rates with contracts even happening below book breakeven. While demand is expected to slightly outstrip supply in the dry bulk segment, supply and demand are likely to be evenly matched in the container shipping segment. Charter rates are expected to be low in the tanker segment with continued oversupply in the tanker segment. However, improvement in World Trade growth to GDP growth ratio is seen as a positive indicator for the shipping industry (rose to 1.5 in 2017 from 0.8 in 2016 and expected to settle at around 1 – 1.2). The Baltic Dry Index, a leading indicator of the global demand for commodities and raw materials, has also recovered to 1584 levels presently. Despite a weak freight market, the asset values for crude and product tankers moved within quite a narrow range of 5-10% during FY18. On the back of a strengthening dry bulk freight market, asset values gained by 5% to 30% depending on the age of the vessel, with a higher gain for older vessels. Over the next 12 months, the Company believes that asset values could stabilize for crude and LPG tankers and may increase for product and dry bulk vessels. At the end of Q1FY19, consolidated NAV was between Rs. 360 and Rs. 430 with the midpoint around Rs. 395 as against about Rs. 380 at the end of March 18

Deterioration of financial performance: At consolidated level, the Company reported total operating income (TOI) of Rs. 3038.38 Crs in FY18 as against Rs. 3116.86 Crs in FY17. On a standalone basis, total operating income was Rs. 2061.03 Crs in FY18 as against Rs. 1703.96 Crs in FY17. Decline in the revenue (consolidated) was attributed to one of the rigs (Offshore business) going off contract and being idle for nearly 10 months, decrease in charter rates and increased operating costs proportionate to fleet increase. On a consolidated basis, the Company reported loss of Rs. 209.59 crs in FY18 as against profit of Rs.754.96 crs in FY17, due to recording of deferred tax liability of Rs. 270.00 Crs and provision of Rs. 206.39 Crs for impairment relating to some of the offshore vessels by Greatship (India) Limited, its wholly owned subsidiary. For Q1FY19, at consolidated level, the Company reported revenue and net loss of Rs. 876.44 Crs and Rs. 245.08 crs respectively while on a standalone basis, revenue was



Rs.677.27 Crs and net loss was Rs. 232.87 crs. This is mainly on account of non cash loss of Rs. 299.10 crs due to fair valuation of currency swap contracts related to borrowings.

Capital structure and debt coverage indicators : On a standalone basis, overall gearing deteriorated from 0.81 times as on March 31 2018 to 0.90 times as on June 30, 2018. On consolidated basis, gearing of 0.90 times as on March 31, 2018 deteriorated to 0.97 times as on June 30, 2018. Interest Service Coverage Ratio weakened to 2.69 times in FY18 as against 4.28 times in FY17.

Earnings volatility : Multiple issues impact the supply demand balance of the industry. This results in tremendous volatility in freight earnings and asset values. During the last two years, the rates in the tanker segment have been very low due to demand supply imbalance. In the period Jan-Mar 2018, crude tankers had seen the worst rates of the last 25 years due to multiple reasons, most significantly, inventory drawdown of oil reserves. In view of the low charter rates, the company had consciously not taken long term charters and hence majority of the vessels are on spot rate deployment, leading to earnings fluctuations. Earlier, the Company had entered into long term charter agreements, whereby there was stability of revenues. However, with rising rates, the company has started fixing a few of their dry bulk ships on short term time charters (upto 6 months) and gas carriers on 9-12+ months. The Company also operates ships in different asset classes and different markets. This ensures that the Company's fortunes are not reliant upon a single market. The Company also ensures that assets are bought at cheap prices as capital cost is a major cost component. The Company hopes to weather the depressed markets better than most players in the business by having among the lowest fleet breakevens. As on June 30 2018, the company had assets in the form of 23 unencumbered ships, amounting to around USD 440 mn.

Foreign exchange risks: GESCO's earnings and majority of its operating expenditure are predominantly USD denominated. Freight rates are determined in USD and so are ship values. The Company has its liabilities also denominated in USD. Any significant movement in currency or interest rates could meaningfully impact the financials of the Company. While there is a natural hedge, the company is exposed to foreign currency and derivative risks (MTM losses), as seen in the non cash losses being incurred.

Geopolitical risk: OPEC nations control more than one third of the oil supply. Therefore their decision on whether to comply with or extend crude production targets can have a material impact on the crude, product and LPG freight markets.

Stringent IMO regulations could result in higher capex requirements : To ensure compliance with IMO regulations, GESCO is in the process of installing Ballast Water Treatment mechanism on its vessels as also examining measures for meeting IMO stipulations on usage of low sulphur fuel. The company expects to incur capex of around Rs 250 Crs in the next 3- 4 years in this regard. Any significant debt funded capex would impact the debt coverage indicators.

Analytical approach

While assigning the ratings, BWR has relied on the consolidated business and financial profile of GESCO because of the commonality of management and operational linkages between GESCO and its subsidiaries. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

Incorporated in 1948, GESCO, Mumbai (listed on BSE and NSE), is the oldest and largest non-government shipping company in terms of tonnage capacity with a fleet size of 49 vessels (3.98 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 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, offshore support vessels, tugs, construction barges, etc.) through its 100% subsidiary Greatship (India) Limited (rated BWR AAA (SO) Outlook - Negative).

Financial Performance - Consolidated

The Company reported total operating income (TOI) of Rs. 3038.38 Crs in FY18 as against Rs. 3116.86 Crs in FY17. Net loss was Rs. 209.59 crs in FY18 as against profit of Rs.754.96 crs in FY17, due to recording of deferred tax liability of Rs. 270.00 Crs and provision of Rs. 206.39 Crs for impairment relating to some of the offshore vessels. Tangible Net-worth as on 31st March 2018 was Rs. 6927.90 Crs against Rs. 7222.22 Crs in FY17. Total debt was Rs. 6213.34 Crs as on March 31 2018 as against Rs. 6815.75 Crs as on March 31 2017. D/E was 0.90 times as on March 31 2018 as against 0.94 times as on March 31 2017. For Q1FY19 (unaudited), the Company reported revenue and net loss of Rs. 876.44 Crs and Rs. 245.08 crs respectively.

Financial Performance - Standalone

On a standalone basis, GESCO reported Total Operating Income of Rs.2061.03 Crs and PAT of Rs. 160.19 Crs in FY18 as against TOI of Rs. 1703.96 Crs and PAT of Rs. 601.39 Crs in FY17. Tangible Net-worth as on 31st March 2018 was Rs.5224.33 Crs against Rs. 5161.05 Crs in FY17. Total debt was Rs. 4222.63 Crs as on March 31 2018 as against Rs. 4431.71 Crs as on March 31 2017. D/E was 0.81 times as on March 31 2018 as against 0.86 times as on March 31 2017. For Q1FY19(unaudited), the Company reported total revenue (including other income) of Rs. 677.27 Crs and net loss of Rs 232.87 Crs.

Key financial indicators are summarized in Annexure I.

Rating History for the last three years:

Sl No	Instrument	Current Rating (Oct 2018)			Rating History with BWR						
		Type	Amount (Rs. Crs)	Rating	2018	2017	2016				2015
					30th Apr	18th May	29th Dec	4th Nov	24th May	4th April	18th Dec
1	NCD	Long Term	3210	BWR AAA (Outlook: Negative) Reaffirmed with revision in Outlook	BWR AAA (Outlook: Stable) Reaffirmed	BWR AAA (Outlook: Stable) Assigned/ Reaffirmed	BWR AAA (Outlook: Stable) Assigned/ Reaffirmed	BWR AAA (Outlook: Stable) Assigned/ Reaffirmed	BWR AAA (Outlook: Stable) Affirmed	BWR AAA (Outlook: Stable) Assigned/ Reaffirmed	BWR AAA (Outlook: Stable) Reaffirmed Withdrawal of BWR A1+ Ratings for BG facility of USD 13 Million
Total			3210		3210	3495	2850	2450	500	1950	1450

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Consolidation of Companies](#)

Analytical Contacts	Media
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Annexure I - Key Financial Indicators

THE GREAT EASTERN SHIPPING COMPANY LIMITED (Consolidated)

Particulars	Unit	31 Mar 2017 Audited	31 Mar 2018 Audited
Total Operating Income	Rs. Crs	3116.86	3038.38
OPBDIT	Rs. Crs	1609.17	1170.34
PAT	Rs. Crs	754.96	(209.57)
Tangible Net-worth	Rs. Crs	7222.22	6927.90
Total Debt/ TNW	Times	0.94	0.90
Current Ratio	Times	2.10	2.19

(Standalone)

Particulars	Unit	31 Mar 2017 Audited	31 Mar 2018 Audited
Total Operating Income	Rs. Crs	1703.96	2061.03
OPBDIT	Rs. Crs	741.22	648.64
PAT	Rs. Crs	601.39	160.19
Tangible Net-worth	Rs. Crs	5161.05	5224.33
Total Debt/ TNW	Times	0.86	0.81
Current Ratio	Times	1.86	1.89

THE GREAT EASTERN SHIPPING COMPANY LIMITED
Annexure II - Details of Rated Instruments (Outstanding as on 17 Oct 2018)

Instruments	ISIN	Issue date	Maturity date	Coupon Rate p.a.	Coupon Frequency.	Amount Raised (Rs. Crs)	Present outstanding (Rs. Crs)
Unsecured NCD	INE017A08128	Aug 20 2009	Aug 20 2019	9.75%	Annually on 20th August	250	235
Unsecured NCD	INE017A08136	Nov 10 2009	Nov 10 2019	9.60%	Annually on 10th November	200	200
Unsecured NCD	INE017A08144	Dec 24 2009	Dec 24 2018	9.19%	Half yearly on 24th June & 24th December	100	100
Unsecured NCD	INE017A08151	Jan 06 2010	Jan 05 2018	9.40%	-	100	0
Unsecured NCD	INE017A08169	Jan 06 2010	Jan 06 2019	9.40%	Annually on 6th January	100	90
Unsecured NCD	INE017A08177	Feb 08 2010	Feb 08 2019	9.35%	Annually on 8th February	200	85
Unsecured NCD	INE017A08185	Jan 07 2011	Jan 07 2023	9.70%	Annually on 07th January	100	100
Unsecured NCD	INE017A08193	Jan 18 2011	Jan 18 2023	9.70%	Annually on 18th January	100	100
Unsecured NCD	INE017A08201	Feb 02 2011	Feb 02 2021	9.70%	Annually on 2nd February	100	100
Unsecured NCD	INE017A08219	Apr 15 2011	Apr 15 2021	9.70%	Annually on 15th April	150	150
Unsecured NCD	INE017A08227	Apr 25 2011	Apr 25 2021	9.70%	Annually on 25th April	50	50
Unsecured NCD	INE017A08235	May 06 2016	May 06 2026	8.70%	Annually on 06th May	250	250
Unsecured NCD	INE017A08243	May 31 2016	May 31 2025	8.70%	Annually on 31st May	250	250
Unsecured NCD	INE017A08250	Nov 10 2016	Nov 10 2025	8.24%	Annually on 10th November	200	200
Unsecured NCD	INE017A08268	Nov 10 2016	Nov 10 2026	8.24%	Annually on 10th November	200	200
Unsecured NCD	INE017A08276	Jan 18 2017	Jan 18 2024	7.99%	Annually on 18th January	250	250
Unsecured NCD	INE017A08284	Jan 18 2017	Jan 18 2025	7.99%	Annually on 18th January	250	250
Unsecured NCD	INE017A08292	May 25 2017	May 25 2027	8.25%	Annually on 25th May	150	150
Secured NCD	INE017A07542	Aug 31 2017	Aug 30 2024	8.05%	Annually on 31st August	150	150
Secured NCD	INE017A07559	April 12 2018	April 12 2028	8.85%	Annually on 12th April	300	300
TOTAL						3450	3210

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.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter 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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc, worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.