

CRISIL reaffirms rating of GREAT EASTERN SHIPPING COMPANY LIMITED

Aggregating Rs. 3,835 Million Non-Convertible Debentures	AAA/Stable (Reaffirmed)
Rs. 750 Million Preference Shares	pfAAA/Stable (Rating Withdrawn)

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The ratings on The Great Eastern Shipping Company Limited (GE Shipping) continue to be based on CRISIL's expectation that the current buoyancy in the international shipping market will sustain in the medium term and favourably impact the company's revenue and profitability levels. GE Shipping's enhanced fleet capacity, which almost doubled to 2.5 million dwt in 2003-04,¹ has led to an improvement in its operating profits. This will result in a strong estimated interest coverage ratio of 12x and net cash accruals to total debt ratio of 0.3 times in 2004-05. The rating also reflects CRISIL's favourable view of the company's management given its conservative fleet deployment strategy and its track record as an efficient shipping operator. These strengths partly offset the concerns on GE Shipping's capital structure, which is moderate for its rating category.

Although the company's gearing (estimated at 1.05x as at March 31, 2005, after assuming a write-back of Rs. 1.24 billion for deferred tax liabilities) is high for its rating category, the extremely liquid nature of its shipping assets is a key risk mitigant. Moreover, its large cash and cash equivalents (around Rs. 6.2 billion as at March 2004) provide significant financial flexibility and liquidity to the company. GE Shipping has extensive capital expenditure plans to increase its fleet size over the next 30 months with a committed component of around Rs. 16 billion, a part of which has already paid as pre-delivery instalments. But it has adequate flexibility to defer the uncommitted component of the planned expenditure, should freight rates or its financial position so warrant.

Outlook: CRISIL expects the upcycle in the global tanker industry to prevail in the medium term, resulting in a healthy financial risk profile for GE Shipping. CRISIL also expects the management to prudently fund its envisaged capital expenditure so as not to vitiate the company's capital structure.

About the company: GE Shipping is the largest private sector shipping company in India today. It has two main businesses, shipping (71 per cent of total revenues in 2004-05) and offshore (23 per cent). The shipping business (tanker and dry bulk) is inherently risky, given the high volatility in charter rates and asset values. The offshore business is relatively stable as it is marked by long-term contracts and a large proportion of repeat business.

Note

For the year ended March 31, 2004, the company reported a net profit of Rs. 4.7 billion on net sales of Rs. 12.9 billion as against a net profit of Rs. 2.3 billion and net sales of Rs. 9.4 billion in the previous year. For the 9 months ended December 31, 2004, GE Shipping reported a net profit of Rs. 5.6 billion on net sales of Rs. 14.9 billion as against a net profit of Rs. 2.7 billion and net sales of Rs. 8.9 billion in the previous corresponding period.

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¹ Refers to the financial year, April 1 to March 31.