

## CRISIL reaffirms rating on GE SHIPPING, removes from Rating Watch

Aggregating Rs. 3,835 Million Non Convertible Debentures<sup>1</sup>

AAA/Stable (Removed from Rating Watch with Developing Implications)

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CRISIL has removed the ratings of The Great Eastern Shipping Company Limited's (GE Shipping's) Non Convertible Debentures issues from 'Rating Watch', and reaffirmed the ratings at 'AAA/Stable'. CRISIL had earlier placed the ratings on 'Rating Watch' following the company's announcement that it had scheduled a board meeting to consider proposals for restructuring the company.

The current rating action follows CRISIL's assessment of the impact of the restructuring on the credit profile of GE Shipping. As per the proposed scheme of de-merger, the entire offshore business of GE Shipping will be de-merged into a separate new company (Great Offshore Limited-GOL, a recently incorporated public company) with effect from April 1, 2005, subject to necessary approvals. Hence there will be two separate companies, each concentrating on their respective businesses - shipping (GE Shipping) and offshore (GOL) - as a consequence of the de-merger.

The offshore business will be carried on by GOL as a going concern, and will consist of the assets and liabilities of GE Shipping's current offshore business, including the immovable properties. Of the liabilities, an amount of Rs. 664.4 million – consisting of Rs. 624 million of Non Convertible Debentures rated by CRISIL, and other general or multipurpose borrowings - will be transferred to GOL. Under the proposed scheme of de-merger, GOL is expected to make funds available to GE Shipping at the relevant time to enable timely debt servicing. It is CRISIL's explicit understanding, based on a legal opinion provided by the transaction lawyers of GE Shipping, that GE Shipping will be liable to make payments to the holders of the rated debentures under all circumstances, and even in the event of GOL not making such funds available. All such debenture holders, therefore, will have direct recourse only to GE Shipping under this arrangement.

CRISIL's earlier rating was driven by the company's strong market presence in the Indian shipping industry, and the revenue stability of the offshore supply division. After the de-merger, although the core competence in the shipping business will continue, the absence of the stable offshore business exposes GE Shipping to the volatility of the shipping cycle, leading to a diminished business risk profile. CRISIL, however, draws comfort from the proven capabilities of the GE Shipping management to effectively run the shipping business, its conservative philosophy on fleet deployment (high share of time charters), and the high financial flexibility of GE Shipping due to large cash balances (estimated Rs. 12 billion as on date).

GE Shipping has extensive capital expenditure plans for the shipping business, to increase its fleet size over the next 3 fiscal years with a committed component of around Rs. 13 billion - a part of which has already been delivered in the current fiscal. After the de-merger, the gearing of the shipping business will be at an estimated 0.7 times (as at March 31, 2006), which is moderate for its rating category. With the partly debt-funded capital

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<sup>1</sup> Includes Rs. 624 million of Non Convertible Debentures, (out of a total of Rs. 2870 million outstanding as on March 31, 2005), which will be transferred to GOL, post completion of necessary approvals.

expenditure, this leverage is likely to increase, though the company would retain the flexibility to defer the uncommitted component of the planned expenditure, should freight rates or its financial position so warrant.

**Outlook:** CRISIL expects the buoyancy in the freight rates to prevail in the medium term, resulting in a healthy financial profile for GE Shipping. GE Shipping's financial profile will not be materially altered as a consequence of servicing part of GOL debt, as per the proposed scheme of de-merger. CRISIL also expects the management to prudently fund its planned 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. It currently has two main businesses, shipping (79 per cent of total revenues in the financial year ended March 31, 2005) and offshore (16 per cent); the offshore business is being de-merged into Great Offshore Ltd. The shipping business (tanker and dry bulk) is inherently risky, given the 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.

For the year ended March 31, 2005, GE Shipping reported a net profit of Rs. 8.1 billion on net sales of Rs. 20.5 billion as against a net profit of Rs. 4.7 billion and net sales of Rs. 12.9 billion in the previous year. For the quarter ended June 30, 2005, GE Shipping reported a net profit of Rs. 3.5 billion (including profit on sale of ship) on net sales of Rs. 5.8 billion as against a net profit of Rs. 1.0 billion and net sales of Rs. 4.1 billion in the previous corresponding period.

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