PRESS Release

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CRISIL reaffirms "AAA" and "pfAAA" ratings of GESCO and revises outlook to Stable

Aggregating Rs. 3,835 Million Non-Convertible Debenture Issues	**AAA/Stable (Rating Reaffirmed, Outlook revised from Negative)**
Rs. 750 Million Preference Share Issue	**pfAAA/Stable (Rating Reaffirmed, Outlook revised from Negative)**

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The ratings reflect CRISIL's expectations that the current buoyant conditions in the international tanker market will prevail over the medium term and favourably impact The Great Eastern Shipping Company Limited's (Gesco) revenue streams and profitability. Gesco has nearly doubled its capacity to around 2.5 million deadweight tonnage (dwt) in the last 18 months. Moreover, it has done so with an only 30 per cent increase in the capital employed. This enhanced capacity has transformed the company's market position and revenue generation ability in the domestic and international markets. The revision in the rating outlook reflects the greater-than-anticipated improvement in international tanker charter rates and Gesco's commensurately higher profitability. The revision also incorporates CRISIL's expectation that the company will sustain its healthy cash generation and improve its capital structure, going forward.

The improvement in Gesco's cash flows and operating profit before depreciation, interest and tax (OPBDIT) in 2003-04 to date has resulted in extremely strong interest coverage ratios (estimated at around 10x in 2003-04), which are in line with the rating category. Consequently, its debt protection ratios like net cash accruals/total debt are also favourable at around 0.3x in FY 2004. Although Gesco's capital structure (estimated gearing of 1.1x as at March 31, 2004) is high for its rating category, the extremely liquid nature of its assets is a key risk mitigant. Moreover, large cash and cash equivalents (around Rs. 5.5 billion as at March 2003) provide significant financial flexibility and ample liquidity to the company.

Gesco is expected to incur a capital expenditure of around Rs.14 billion through to 2005-06, of which, it has committed around Rs. 8.1 billion. It has the flexibility to defer the remaining capex should market conditions or its financial position so demand. CRISIL expects the company to fund this expansion programme through a prudent mix of debt and equity so as not to vitiate its capital structure further.

The current ratings also reflect Gesco's track record as an extremely efficient domestic shipping operator, its reasonable success in deploying its fleet in the international markets over the last few years and its superior cost position vis-à-vis its international competitors. In addition, the ratings reflect CRISIL's favourable view of the company's management with respect to both its conservative strategies in the past and its foresight in globalising its operations in mid-1999, well before the domestic tanker market was decontrolled in April 2002.

The company has two main businesses, shipping and offshore. The shipping business (tanker and dry bulk) is inherently risky and is characterised by high volatility in charter rates and asset values. The company mitigates these risks by entering into long-term charters, where rates are less volatile. Typically, around 50 per cent of tanker revenues are covered through long-term contracts (duration of 6-18 months) at the beginning of each fiscal year. The concentration of Gesco's asset class in relatively less volatile product tankers and Aframax tankers is also a source of comfort. The offshore business is relatively stable and is characterised by long-term contracts (over 2 years) and a high proportion of repeat business.

Outlook: CRISIL expects the upcycle in the global tanker industry to prevail over the medium term, resulting in a healthy financial risk profile for Gesco. 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:

Gesco is the largest private sector shipping company in the country today. Its shipping and offshore divisions account for around 70 per cent and 25 per cent of its total revenues respectively. According to its unaudited results for the 9 months ended December 2003, the company reported a net profit of Rs. 2.86 billion (Rs. 1.34 billion in the previous corresponding period) on an operating income of Rs 8.53 billion (Rs. 6.67 billion).