



# LSE Securities

## Great Eastern Shipping Company - Buy Investment Overview

- Great Eastern Shipping Company (GE Shipping) is the largest private shipping company in India.
- GE Shipping currently operates a fleet of 62 vessels and is expanding it to 74 vessels.
- Greatship, the subsidiary company of GE Shipping, carrying out offshore exploration and production activities will scale up its fleet from 21 to 27.
- GE Shipping is likely to benefit from the recovery in global trade and freight rates, leading to better profitability in F2011 onwards.
- Improved demand drives recovery in shipping rates from current levels, leading to better earnings and improved earnings visibility.
- The Company currently has a total capex commitment of around \$437 mn, which translates to about Rs 2021 crore.

## Business Overview

Great Eastern Shipping Company is India's largest private sector shipping company. The company's major businesses include shipping and offshore. The shipping business includes transportation of crude oil, petroleum products, gas and dry bulk commodities, while the offshore business caters to the oil companies in carrying out offshore exploration and production activities, through its wholly owned subsidiary Greatship (India). GE Shipping currently operates a fleet of 62 vessels and the current market value of the fleet is around \$925 million.

The shipping business operates under two main businesses: dry bulk carriers and tankers. A sizeable part of the tankers enjoy approvals from major oil giants of the world.

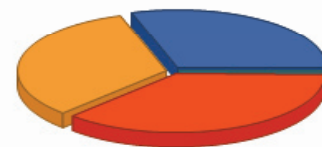
Its subsidiary Greatship (GIL) is engaged in offshore oil field services. GIL and its subsidiaries operate in three main segments - Drilling Services, Offshore Logistics and Offshore Construction. The average age of its vessels is approximately 2.51 years. GIL has also entered into alliances/partnerships with global service providers to in-charter Rigs and Offshore Supply Vessels of diverse types to service prospective requirements in India.

## Financial Health

For the quarter ended December 31, 2009 the

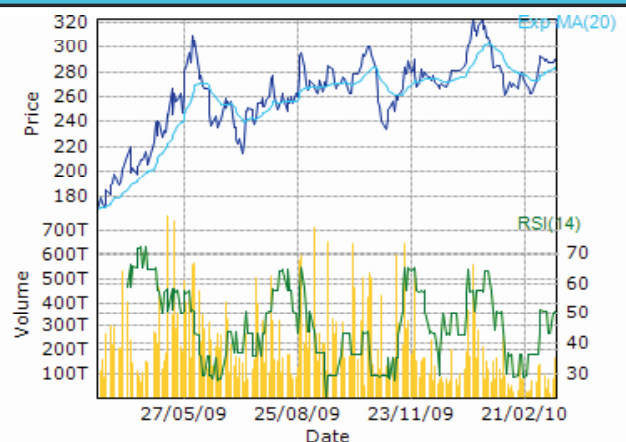
Stock Data		19/03/2010
Current Mkt Price (Rs)		283.00
52 Week High		327.50
52 Week Low		165.50
Mkt Cap (Rs. in Million)		43083.00
Return in last one Month (%)		5.14

## Share Holding



30.03 Indian Promotor	32.78 Total Institutions
37.03 Total Non-Institutions	0.16 Depository Receipt

## Performance in last one year



## Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	29178.60	27733.30	5.21
Other Income	4468.80	4323.10	3.37
Total Expenditure	13580.70	13124.80	3.47
Operating Profit	20066.70	18931.60	6.00
Interest	1536.40	1492.80	2.92
Profits After Tax	13746.90	13567.30	1.32
Reserve & Surplus	0.48	0.40	19.25
Reported EPS(Rs)	90.93	89.11	2.04
Core EBITDA Margin (%)	53.46	52.67	1.48



# LSE Securities

company reported worst PAT for about six years. Its profit stood at Rs 75.30 crore compared to Rs 241.03 crore in the corresponding previous quarter, down by huge 68.76%.

The total revenue of the company declined by 35.93% to Rs 466.93 crore from Rs 728.77 crore in the same quarter last year. Year to date the sales revenue declined by 32.81%.

Other income for the quarter increased by 23.78% to Rs 59.54 crore from Rs 48.10 crore though year to date the same witnessed a decline of 71.21%.

The Operating profit excluding gain on sale of ships was down by 57% mainly on account of lower TCY realizations during the quarter and to some extent on account of lower revenue days due to a lower fleet capacity.

GE Shipping's consolidated operating profit margin declined 1,050 basis points YoY to 28.2% in the third quarter, while its income from operations also fell nearly 27% YoY to Rs 706.25 crore.

Segment wise the revenue from Shipping stood at Rs 594.01 for the quarter down by 38.09% from Rs 959.45 crore while the Offshore revenue surged by 140.72% to Rs 201.96 compared to Rs 83.90 crore in the same quarter last year.

## Industry Scenario

India has a coastline of about 7,500 kilometers (km) and 200 ports, of which only 13 are major while the balance 187 are minor. If we look at state wise distribution, Maharashtra has maximum ports -- 53, followed by Gujarat 40, Kerala 13, Lakshadweep and Karnataka 10 each Andaman & Nicobar 23, Andhra Pradesh 12, Tamilnadu 15, Orissa and Daman & Diu 2 each, Goa 5 and West Bengal and Pondichery one each.

Shipping industry has been one of the worst hit sectors in the global economic turmoil which began late last year. Foreign trade has suffered heavily with the World Bank projecting first decline in global trade in more than 27 years. Shipping indexes witnessed a free fall towards the end of last year and beginning of the current year.

World shipping industry has been one of the worst affected by the economic turmoil that rocked the world last year and still continues to impact the businesses. The industry which faced the brunt of soaring crude prices in first half of 2008 has been impacted by

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	4669.30	7287.70	-35.93
Expenditure	3346.10	3972.80	-15.77
Other Income	595.40	481.00	23.78
EBITDA	1918.60	3795.90	-49.46
Interest	317.70	444.00	-28.45
Net Profit	753.00	2410.30	-68.76
EBITDA Margin (%)	0.41	0.52	-21.11
NPM (%)	0.16	0.33	-51.24
EPS	4.94	15.83	-68.79

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	29178.60	27733.30	5.21
Total Income	33647.40	32056.40	4.96
Total Expenditure	13580.70	13124.80	3.47
Operating Profit	20066.70	18931.60	6.00
Profits After Tax	13746.90	13567.30	1.32

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	1522.90	1522.70	0.01
Reserve & Surplus	47759.30	40051.00	19.25
Total Liabilities	79947.70	66579.70	20.08
Investments	12509.60	9213.50	35.77
Current Liabilities	7626.30	4244.10	79.69
Net Current Assets	13698.00	9040.30	51.52
Total Assests	79947.70	66579.70	20.08

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	90.93	89.11
Core EBITDA Margin (%)	53.46	52.67
EBIT Margin (%)	53.92	55.97
ROA (%)	18.76	22.76
ROE (%)	30.26	37.56
ROCE (%)	21.47	26.04
Price/Book (x)	0.58	1.38
Net Sales Growth (%)	5.21	38.69
EBIT Growth (%)	1.36	52.62
PAT Growth (%)	1.32	54.54
Total Debt/Mcap (%)	1.07	0.43



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## Peer group comparison (Rs. crore)

\*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*
GE Shipping	200903	2917.86	1559.79	1374.69	47.11	35.35	8.18
Shipping Corp.	200903	4166.64	1060.53	940.67	22.58	10.43	15.22
Essar Shipping	200903	1023.2	275.05	107.66	10.52	0.72	99.27
Dredging Corp.	200903	685.28	-46.4	46.37	6.77	11.44	54.26

slowdown in world trade after the crude prices came down. While the industry showed some positive trend in recent months, overall situation remains volatile.

Indian shipping industry too has faced its share of problems. India's exports and imports have both been declining for nine straight months now which has impacted the traffic at major ports. Although the current fiscal has seen revival in port traffic riding on improved demand in some segments, for example iron ore, a number of issues including that of financing continue to hit the growth plans of the industry.

### Latest developments:

Greatship Global Offshore Services (GGOS), the Singapore-based subsidiary of Greatship India (GIL), and a wholly-owned subsidiary of GE Shipping, has contracts to sell a Multipurpose Platform Supply and Support Vessel (MPSSV) identified as Hull No- 342 (tbn Greatship Mohini). The vessel is currently under construction and expected to be delivered to the buyers in fourth quarter of the financial year 2010.

In January GE Shipping announced that it has taken delivery of a 1996-built about 47,000 dwt medium range (MR) product tanker 'Jag Padma'. Following the induction of Jag Padma, the company's current fleet increased to 38 vessels from 37 vessels, comprising 32 tankers (12 crude carriers, 19 product tankers, one LPG carrier) and six dry bulk carriers with an average of 11 years aggregating 2.89 million dwt.

### Investment Rationale

For the last quarter the company has performed exceptionally well in offshore segment and offshore will be the key earnings driver over the next few years. The company is also likely to increase its fleet to 27 vessels in FY12. In addition, the company has one owned rig and one chartered-in rig contracted for 3-5 years at an attractive rate, which should support its margin in the coming days.

Crude prices have stabilized and Global E&P expenditure is strongly correlated with global crude oil prices so the

E&P companies will now shift away from cost cutting mode and will definitively enter into spending mode again. On the same time Total global rig deployment has already seen a pick-up from around 2,000 units deployed in mid 2009 to around 2,700 units currently. This should lead to overall increased demand for support vessels.

The company possesses a relatively young fleet and its offshore assets have been added in last few years only giving an advantage over other players, also it will be adding about 9 new vessels further strengthening its market position.

From long term outlook, over the next couple of years, the share of shipping in total revenues of the company is likely to decline to around 62% as the company expands its offshore fleet and simultaneously the offshore revenue will increase that is in line with the sector outlook so the company will be gradually benefitted with this shifting of business as the offshore business has relatively high margins. The company has invested Rs1100 crore in its offshore arm.

The company has acquired second hand product tanker and will look at opportunities both in tankers, dry bulk as well as in offshore, but is not in very aggressive mood for the coming 2-3 quarters. Though it is likely to go for a capital expenditure of \$406mn over FY10-12e in offshore; and \$437mn towards fleet expansion in shipping.

At the CMP of Rs 283, GE Shipping is trading at PE multiple of 8.00 and 4.8x FY12E earnings. We will recommend a buy in the stock considering it to be still undervalued with a price target of Rs 345. As the slowdown has slowly started recovering the prospects of the company has increased comparatively. The tanker/product carriers constitute the largest segment of GE Shipping and that segment has started recovering from the beginning of the year. The company in its guidance itself has estimated the revenue to be around Rs 293 crore for the last quarter of FY 2009-10.



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