

**24<sup>th</sup> Dec 2018**
**CMP 319**
**Not Rated**
**Index Details**

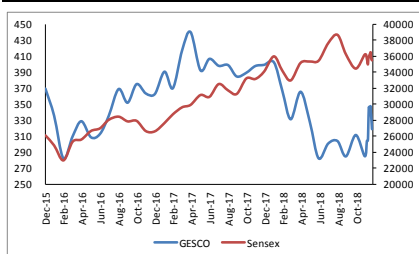
Sensex	35,470
Nifty	10,663
Nifty 500	9,002
Industry	Shipping

**Scrip Details**

Mkt Cap (Rs Cr)	4,851
O/S Share (Cr)	15.08
3 M Avg Vol (000)	135.9
52 Wk H/L (Rs)	482/266
Div Yield (%)	2.2
FVPS (Rs)	10.0

**Shareholding Pattern**

Shareholder	%
Promoters	29.66
Institutional	44.19
Public	26.15
Total	100.0

**GESCO vs. Sensex**


Figures are in INR Crore

Y/E March	Sales	EBITDA	PAT	EBITDA Margin (%)	PAT Margin (%)	Adj EPS (₹)	RoE (%)	RoCE (%)	EV/EBITDA (x)	P/E (x)	P/B (x)
FY15	3,793.5	1,432.6	748.2	37.8	19.7	49.6	10.5	8.2	4.7	6.5	0.65
FY16	4,168.1	1,944.8	1,097.0	46.7	26.3	72.8	15.7	11.4	3.0	4.4	0.74
FY17	3,658.9	1,380.2	755.0	37.7	20.6	50.1	11.0	9.6	4.7	6.4	0.67
FY18	3,407.6	964.0	-209.6	28.3	-6.2	-13.9	-3.0	3.9	7.0	--	0.70

The shipping industry which has been in a downtrend since over a decade is seeing early signs of green shoots. Freight rates on a VLCC tanker, after bottoming out in May 2018 (\$2,959/day), are up by more than 14x to \$45,300/day (Nov 2018). Further with two disruptive events on the anvil

- I. Using scrubbers to lower sulphur pollution (or using costlier low sulphur fuel in vessels)
- II. Treatment of ballast water

being made compulsory by regulators with a Jan 2020 deadline, the freight rates are only expected to look up. In addition ship scrappage has hit an all time high and this bodes well for freight buoyancy to be maintained. Given this concoction of favourable forces coming together, the outlook for the shipping industry never looked better (especially since the onset of the financial meltdown). Great Eastern Shipping Co Ltd (GESCO) with its rich experience of having withstood several shipping cycles is the best way to participate in the upside.

In our opinion, GESCO is one of the best capital allocators in the industry. The proof of the pudding lies in the eating and GESCO has demonstrated uncommon alacrity in timing the shipping cycles. In 2007 while optimism was running at its peak, GESCO was one of few incumbents locking in capital gains by monetizing its asset portfolio (GESCO sold its 2 crude tankers – VLCC & Aframax, 1 year before the fall in asset value). GESCO gradually reduced its portfolio to 29 ships till FY15 and then grew it to 48 ships diversified across segments with almost the entire additions to the fleet being purchased at the bottom of the cycle. We believe that GESCO will benefit not only from the operating leverage emanating from the sharp uptrend in freight rates, but also gain from the appreciation in the value of the fleet. The recent sale of 1 Dry Bulk Carrier and purchase of 5 ships (in a weak shipping cycle) bears testimony to its philosophy of churning its asset portfolio.

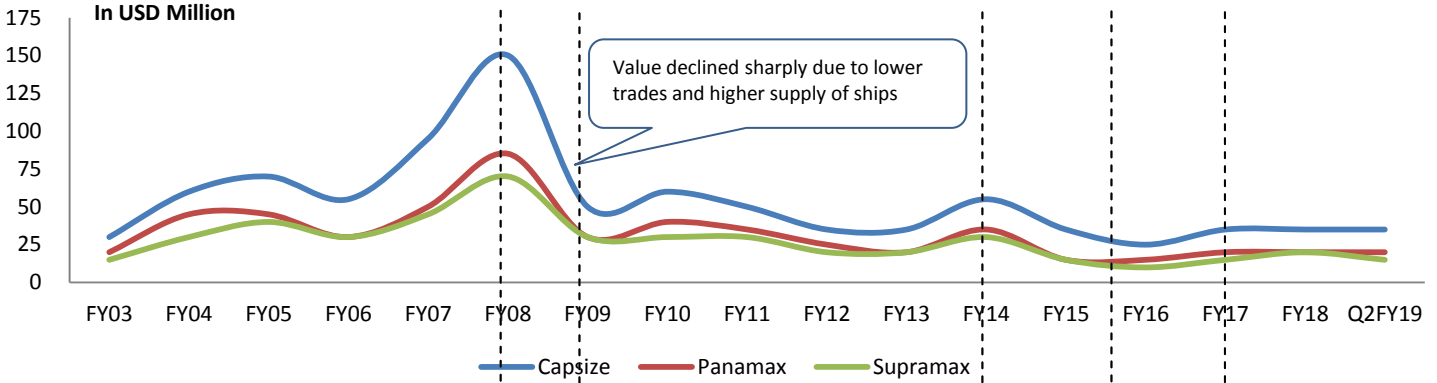
Further GESCO is among the top 10 preferred logistic partners for large global corporations and this stands it in good stead to ensure strong asset turnover. In addition the low debt leverage (relative to the industry) is an added attraction.

While the shipping segment is looking up, we are not that upbeat on the prospects of the E&P business. This is expected to continue to be a drag in the near future given the global glut in underutilized rigs and off shore vessel. With several contracts coming in for renewal, erosion in pricing power is a given and we expect the losses from this segment to widen.

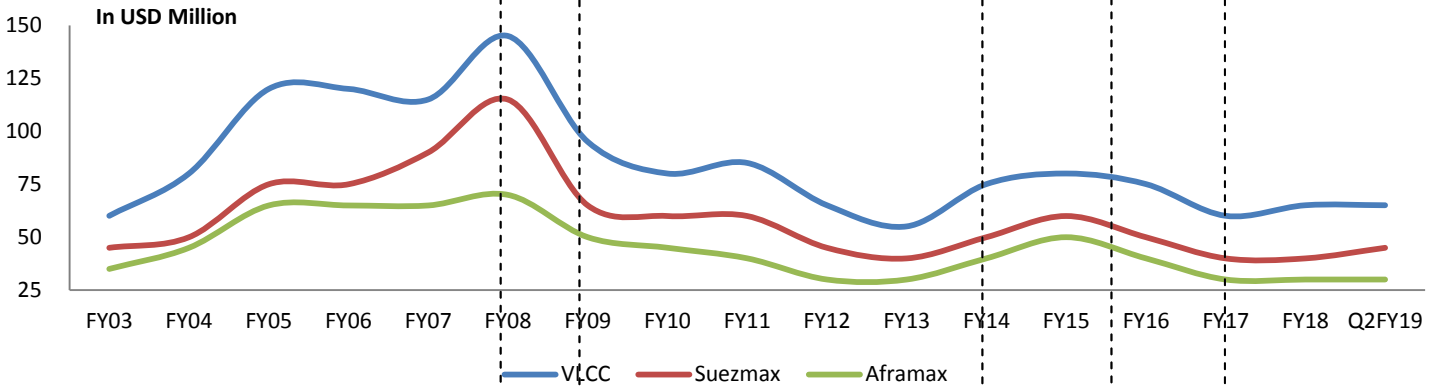
However overall we do believe that the negative outlook on the E&P segment is already discounted in the price and the stock performance should improve as the bullish prospects of the shipping industry play out. The valuation of the stock 7.6X EV/EBIDTA are near all time lows and provides a good margin of safety.

**GESCO restructured shipping assets with market value of ships**

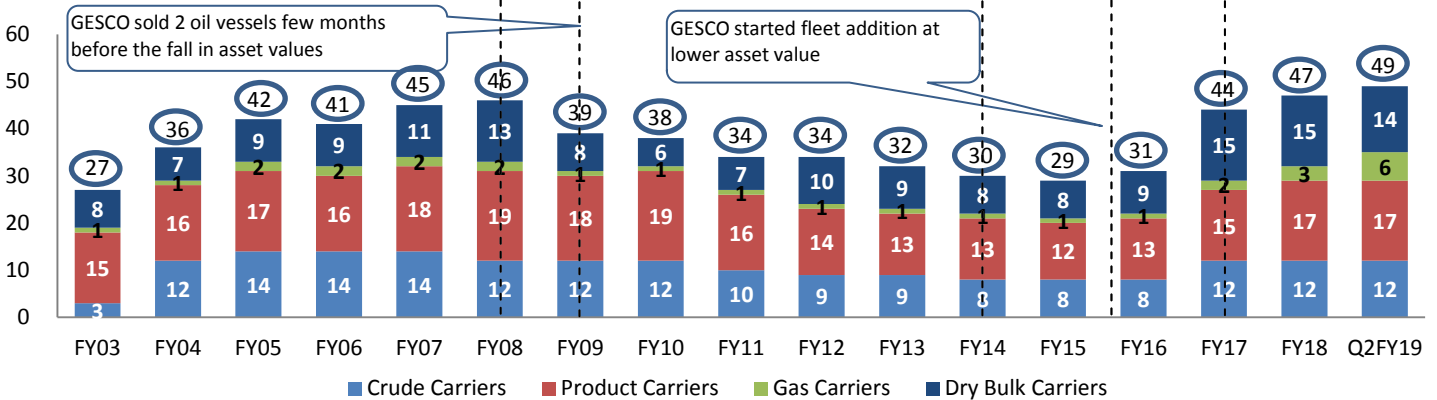
**5 year old bulk carrier asset value (Industry)**



**5 year old crude tanker asset value (Industry)**

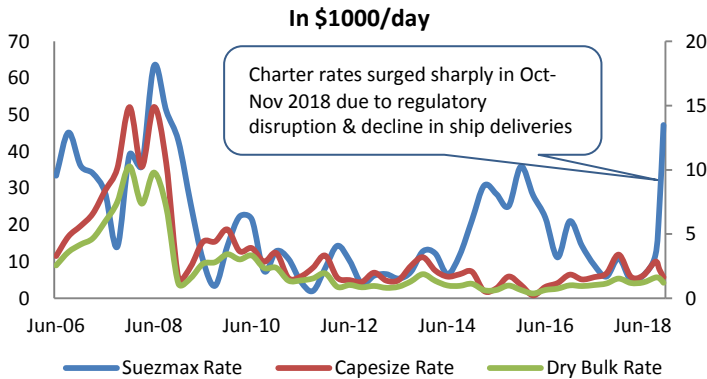


**GESCO Shipping Asset Profile (Number of ships in 4 major categories)**

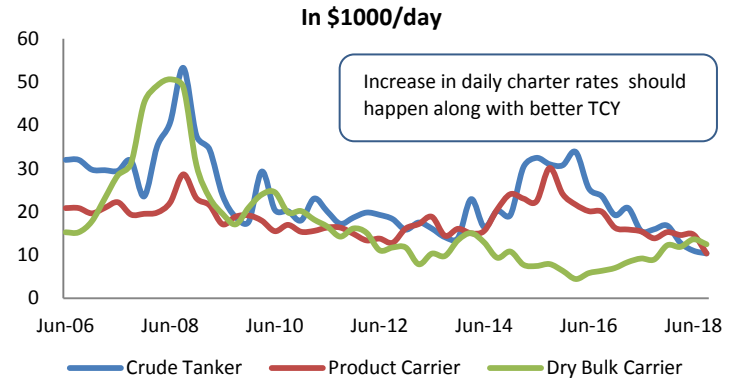


Source: Company Reports & Ventura Research

### Global Per Day Charter Prices

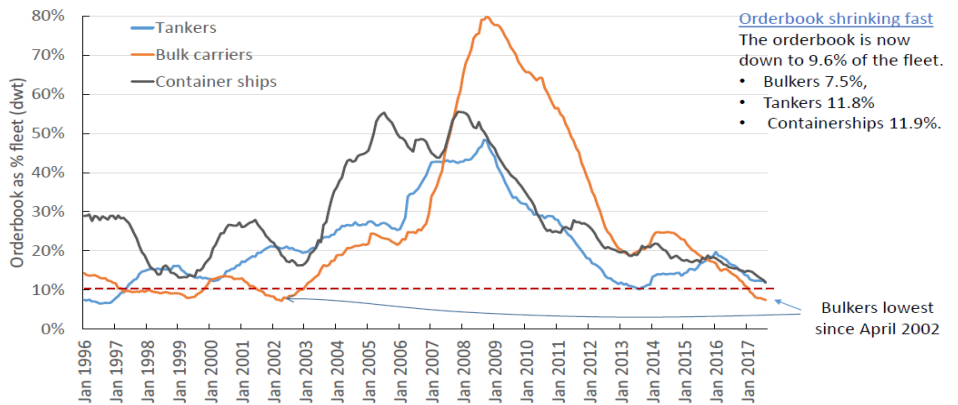


### GESCO's Per Day Time Charter Yield



Source: Company Reports & Ventura Research

### Global Shipping Order Book (as the % of DWT fleet capacity)

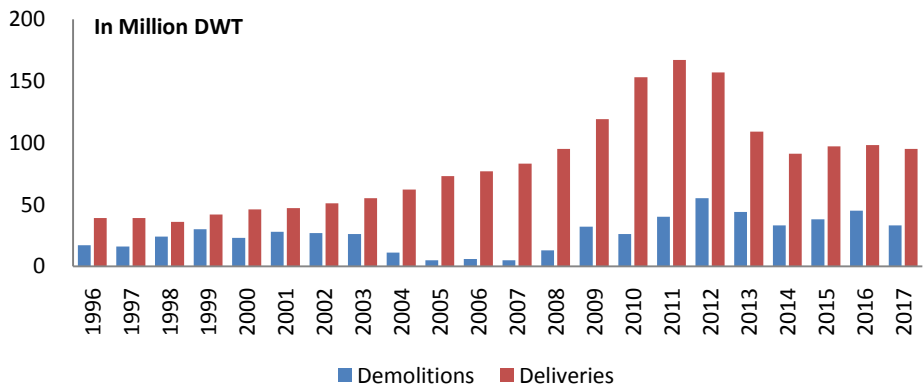


The recipe for a uptrend in freight rates is building up:

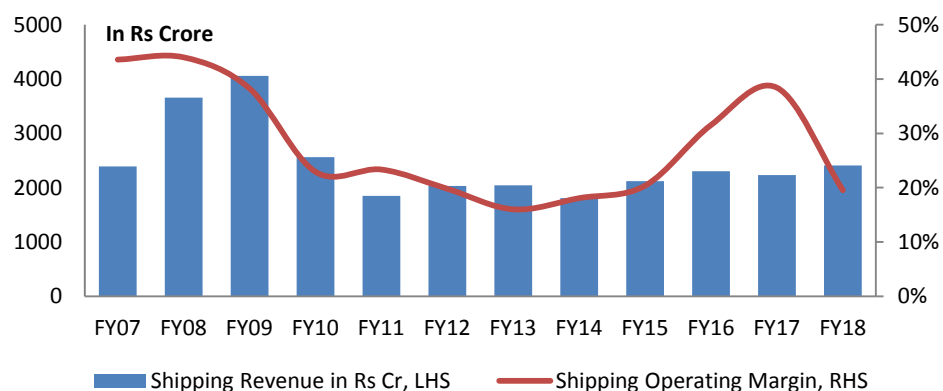
- Declining order book would mean lower future deliveries
- Steady trend in ship demolitions will curtail existing global fleet

Source: Clarkson Research

### Global Shipping – Demolitions vs Deliveries



Source: Clarkson Research & Ventura Research

**GESCO's Shipping Revenue and EBIT Margin**


Source: Company Reports & Ventura Research

**GESCO's Shipping Segment Quarterly Financials (Figures are in Rs Cr)**

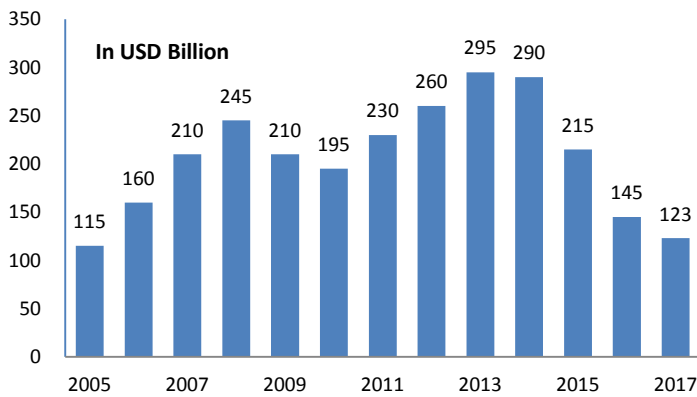
Shipping Segment	Q2FY19	Q1FY19	YoY	QoQ	Q4FY18	Q3FY18	Q2FY18	Q1FY18	Q4FY17	Q3FY17	FY18	FY17	YoY
Net Sales	620	678	15.2%	9.3%	619	678	559	588	623	569	2,445	2,270	7.7%
Total Expenditure	812	918	109.7%	12.9%	640	548	435	438	393	332	2,062	1,412	46.0%
EBIT	-192	-240	-258.9%	24.7%	-21	130	124	151	229	237	383	858	-55.3%
EBIT Margin %	-24.0%	-29.2%			-2.7%	15.6%	17.6%	20.4%	30.7%	31.7%	12.6%	27.5%	
Capital Employed	4,851	5,153	-47.5%	6.2%	5,382	9,981	9,843	9,812	9,741	9,030	5,382	9,741	-44.8%

Source: Company Reports & Ventura Research

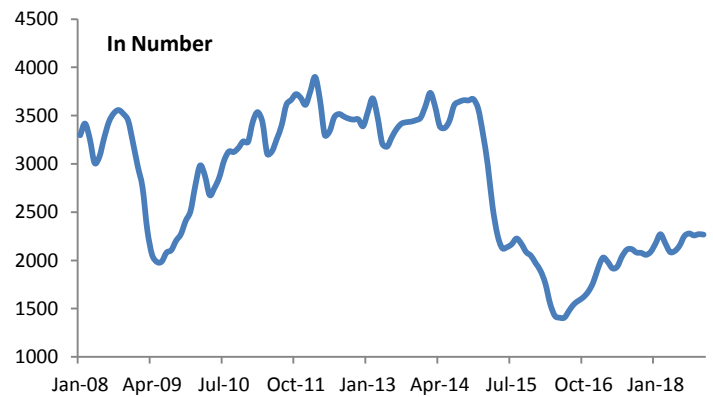
### Offshore Business

GESCO's offshore business suffered due to a significant decline in global crude oil prices, which started falling since Dec 2013 due to a significant fall in E&P spend and decline in global rig count.

**Global E&P CAPEX**



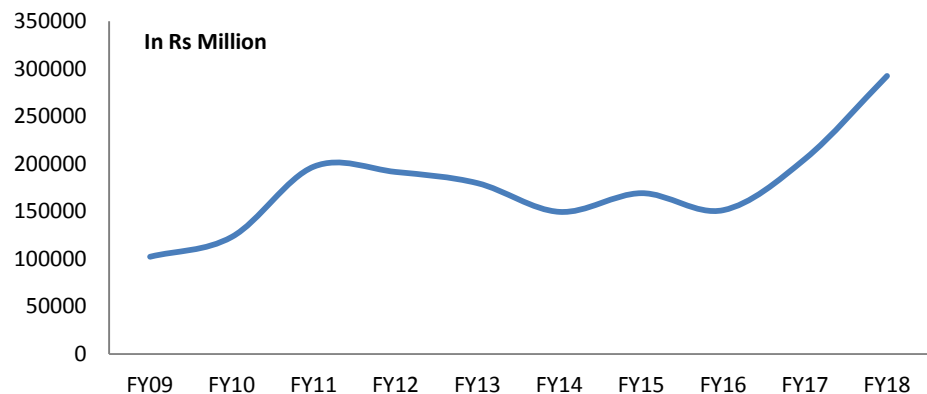
**Global Active Rig Count in Nos.**



Source: Baker Hughes, Company Reports & Ventura Research

With the fall in crude oil prices, rig values declined and global exploration companies suspended their capex plans and GESCO was hit by idling of rigs. Company got some business from ONGC as it was the only exploration company, which was consistently undertaking capex on new rigs to cater India's growing energy demand.

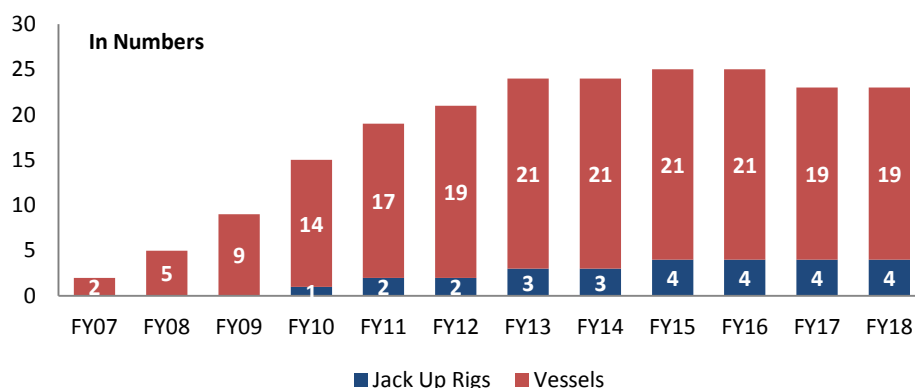
**ONGC Capital Expenditure (in Rs Mn)**



Resource: Company Reports & Ventura Research

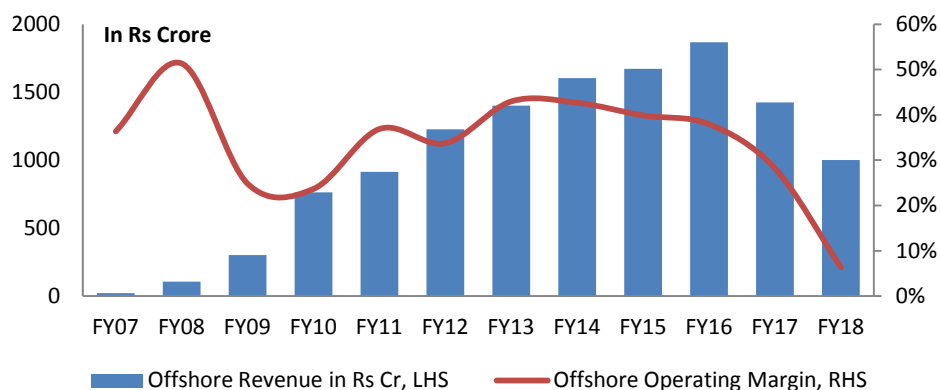
GESCO has 19 vessels & 4 jack up rigs in its offshore division. Improvement in global rig count (amid rise in Brent oil prices) could enhance the business for GESCO's offshore segment

### GESCO's Offshore Jack Up Rigs & Vessels



Source: Company Reports & Ventura Research

### GESCO's Offshore revenue and profitability



Source: Company Report & Ventura Research

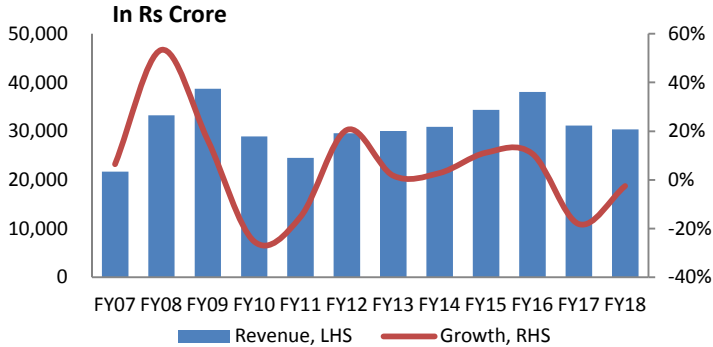
### GESCO's Offshore Segment Quarterly Financials (Figures are in Rs Cr)

Offshore Segment	Q2FY19	Q1FY19	YoY	QoQ	Q4FY18	Q3FY18	Q2FY18	Q1FY18	Q4FY17	Q3FY17	FY18	FY17	YoY
Net Sales	238	204	-26.0%	-14.1%	207	249	263	276	262	358	995	1,405	-29.2%
Total Expenditure	269	210	14.8%	-22.1%	604	168	172	183	387	236	829	1,216	-31.8%
EBIT	-31	-5	-105.8%	-82.6%	-397	81	91	93	-125	122	166	189	-12.3%
EBIT Margin %	-3.9%	-0.7%			-51.7%	9.7%	13.0%	12.6%	-16.7%	16.2%	5.4%	6.1%	
Capital Employed	2,921	2,892	-50.6%	-1.0%	2,853	5,755	5,731	5,861	5,907	7,540	2,853	5,907	-51.7%

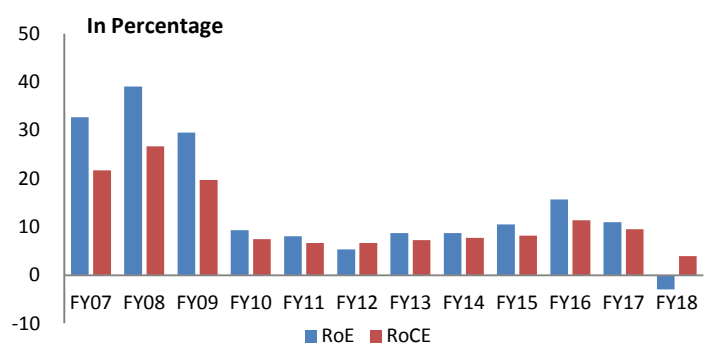
Source: Company Reports & Ventura Research

## GESCO's Consolidated Performance Analysis

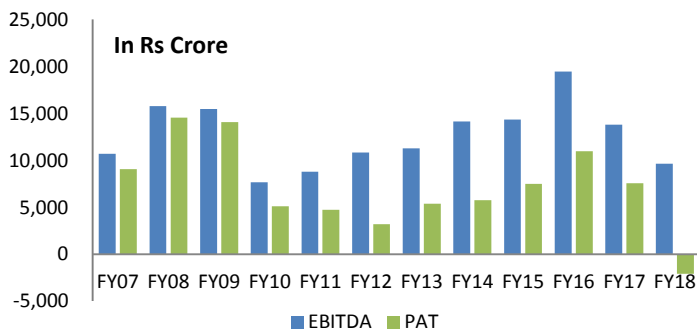
**Revenue & Growth**



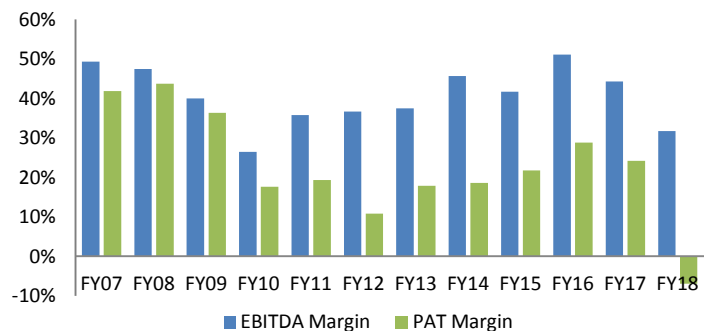
**Return on Investments**



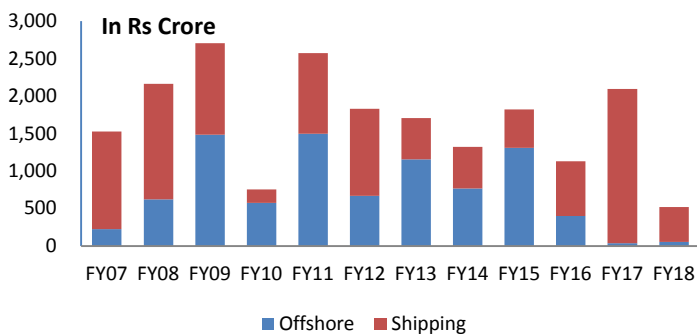
**EBITDA & PAT**



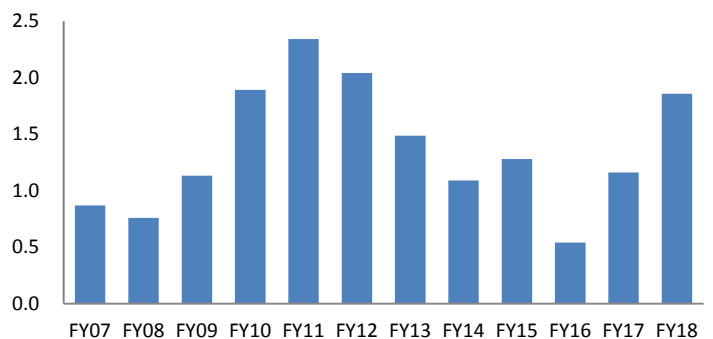
**EBITDA & PAT Margin**



**Segmental CAPEX**



**Net Debt to EBITDA**



Source: Company Reports & Ventura Research

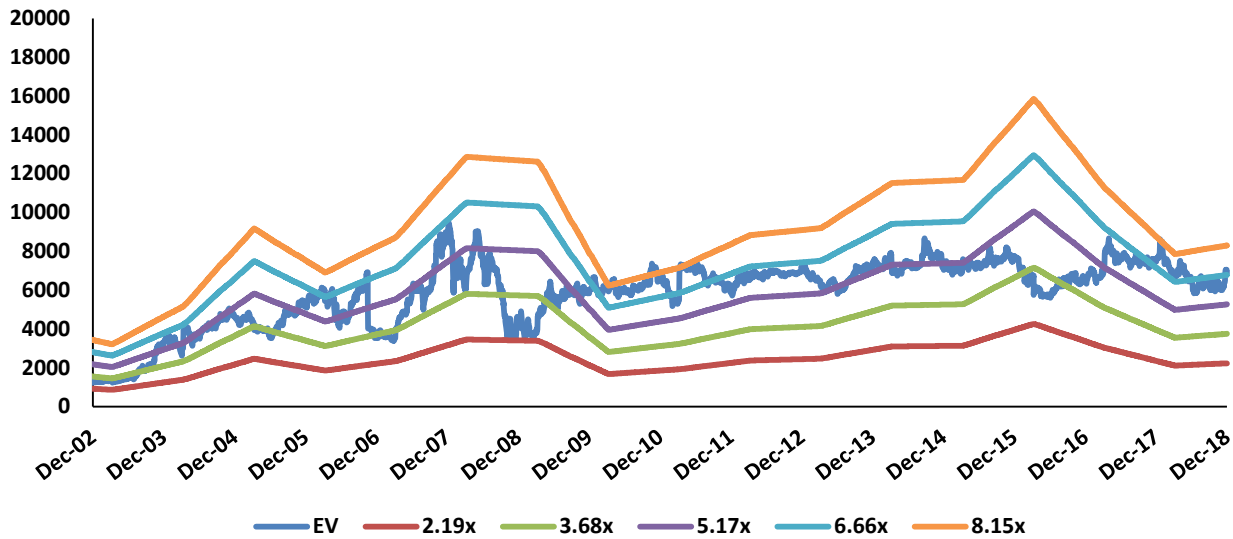


Financials

Particulars	Q2FY19	Q1FY19	YoY	QoQ	Q4FY18	Q3FY18	Q2FY18	Q1FY18	Q4FY17	Q3FY17	FY18	FY17	YoY
Net Sales	799	821	11.4%	2.7%	769	829	702	738	747	749	3,038	3,117	-2.5%
Total Expenditure	556	792	82.0%	42.5%	762	505	410	435	698	346	2,074	1,737	19.4%
EBITDA (excl OI)	244	29	-90.3%	-87.9%	7	324	292	302	49	404	964	1,380	-30.2%
EBITDA Margin %	30.5%	3.6%			0.9%	39.1%	41.6%	41.0%	6.5%	53.9%	31.7%	44.3%	
Depreciation	194	191	3.4%	-1.5%	189	204	190	185	178	182	769	678	13.4%
EBIT (excl OI)	50	-162	-237.4%	-424.9%	-182	120	102	118	-129	221	195	702	-72.2%
EBIT (excl OI) Margin %	6.2%	-19.7%			-23.7%	14.4%	14.5%	16.0%	-17.3%	29.6%	6.4%	22.5%	
Other Income	51	55	-56.4%	7.2%	46	91	22	126	234	154	338	557	-39.3%
EBIT	101	-107	-143.6%	-205.2%	-136	210	124	244	104	376	533	1,259	-57.6%
EBIT Margin %	12.7%	-13.0%			-17.7%	25.4%	17.6%	33.1%	14.0%	50.1%	17.6%	40.4%	
Interest	136	129	25.5%	-5.5%	123	85	145	102	115	90	455	378	20.5%
Exceptional Items	-179	0			0	0	91	0	0	0	0	0	
PBT	-214	-235	-265.9%	9.7%	-259	125	70	142	-11	286	78	882	-91.1%
PBT Margin	-26.8%	-28.6%			-33.7%	15.1%	10.0%	19.2%	-1.4%	38.2%	2.6%	28.3%	
Tax	9	10	-73.6%	8.2%	159	27	64	38	24	31	288	127	127.4%
Tax Rate	-4.3%	-4.3%			-61.4%	21.7%	90.3%	26.9%	-222.6%	10.8%	367.6%	14.4%	
PAT	-223	-245	-336.7%	9.7%	-418	98	7	104	-34	255	-210	755	-127.8%
PAT Margin %	-28.0%	-29.8%			-54.4%	11.8%	1.0%	14.0%	-4.6%	34.1%	-6.9%	24.2%	
Minority Interest	0	0			0	0	0	0	0	0	0	0	
Share of Associates	0	0			0	0	0	0	0	0	0	0	

Source: Company Reports & Ventura Research

GESCO's EV to EBITDA Band Chart



Source: Bloomberg & Ventura Research

**GESCO's Annual Financials (Consolidated)**

Y/E March, Fig in ` Cr	FY13	FY14	FY15	FY16	FY17	FY18	Y/E March, Fig in ` Cr	FY13	FY14	FY15	FY16	FY17	FY18
<b>Profit &amp; Loss Statement</b>							<b>Per Share Data (Rs)</b>						
Shipping	2,044.0	1,810.3	2,120.8	2,300.3	2,234.3	2,406.1	Adj. EPS	35.3	38.1	49.6	72.8	50.1	-13.9
Offshore	1,400.6	1,604.4	1,672.7	1,867.8	1,424.6	1,001.5	Cash EPS	74.2	81.7	90.1	113.1	95.0	37.1
<b>Gross Sales</b>	<b>3,444.6</b>	<b>3,414.8</b>	<b>3,793.5</b>	<b>4,168.1</b>	<b>3,658.9</b>	<b>3,407.6</b>	DPS	7.5	9.0	11.0	13.5	10.1	7.2
% Chg.		-0.9	11.1	9.9	-12.2	-6.9	Cash Yield in (%)	-0.1	0.1	-0.0	0.2	-0.1	-0.0
Total Expenditure	2,316.9	2,001.3	2,360.9	2,223.3	2,278.7	2,443.7	Book Value	416	449	493	435	479	460
% Chg.		-13.6	18.0	-5.8	2.5	7.2	<b>Capital, Liquidity, Returns Ratio</b>						
<b>EBIDTA</b>	<b>1,127.7</b>	<b>1,413.5</b>	<b>1,432.6</b>	<b>1,944.8</b>	<b>1,380.2</b>	<b>964.0</b>	Debt / Equity (x)	1.1	0.9	0.9	0.9	0.9	0.9
EBIDTA Margin (%)	32.7	41.4	37.8	46.7	37.7	28.3	Current Ratio (x)	1.9	1.5	1.6	1.9	2.1	2.2
Other Income	393.8	252.6	276.2	158.5	556.9	338.1	ROE (%)	8.7	8.8	10.5	15.7	11.0	-3.0
<b>PBDIT</b>	<b>1,521.5</b>	<b>1,666.1</b>	<b>1,708.7</b>	<b>2,103.4</b>	<b>1,937.1</b>	<b>1,302.1</b>	ROCE (%)	7.3	7.8	8.2	11.4	9.6	3.9
Depreciation	592.4	658.0	610.0	607.9	677.9	768.7	<b>Valuation Ratio (x)</b>						
Interest	344.7	374.9	300.6	287.8	377.6	455.1	P/E	9.0	8.5	6.5	4.4	6.4	--
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	P/CEPS	4.3	3.9	3.6	2.8	3.4	8.7
<b>PBT</b>	<b>584.4</b>	<b>633.2</b>	<b>798.1</b>	<b>1,207.7</b>	<b>881.6</b>	<b>78.3</b>	P/BV	0.8	0.7	0.7	0.7	0.7	0.7
Tax Provisions	46.6	59.2	49.9	110.7	126.6	287.9	EV/Sales	1.9	1.9	1.8	1.4	1.8	2.0
Reported PAT	537.8	574.0	748.2	1,097.0	755.0	-209.6	EV/EBIDTA	5.8	4.5	4.7	3.0	4.7	7.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	<b>Efficiency Ratio (x)</b>						
Share of Associate	0.0	0.0	0.0	0.0	0.0	0.0	Receivable (days)	42.6	38.2	32.4	30.8	30.0	26.9
<b>Net Profit</b>	<b>537.8</b>	<b>574.0</b>	<b>748.2</b>	<b>1,097.0</b>	<b>755.0</b>	<b>-209.6</b>	Inventory (days)	14.9	16.1	14.9	12.1	15.1	19.3
Net Margin (%)	15.6	16.8	19.7	26.3	20.6	-6.2	Payable (days)	38.8	38.3	32.0	38.2	39.8	38.9
Tax Rate (%)	8.0	9.4	6.3	9.2	14.4	367.6	<b>Cash Flow Statement</b>						
<b>Balance Sheet</b>							Profit Before Tax	584.4	633.2	798.1	1,207.7	881.6	78.3
Share Capital	152.3	150.8	150.8	150.8	150.8	150.8	Depreciation	592.4	658.0	610.0	607.9	677.9	768.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	Working Capital Changes	86.6	-13.5	9.9	49.1	33.7	-101.0
Reserves & Surplus	6,189.4	6,622.1	7,279.8	6,412.7	7,072.6	6,778.4	Others	-7.5	79.9	26.7	286.0	-71.4	222.9
<b>Total Debt</b>	<b>5,689.4</b>	<b>4,976.0</b>	<b>5,462.6</b>	<b>4,907.7</b>	<b>5,940.5</b>	<b>5,532.4</b>	<b>Cash Flow From Operations</b>	<b>1,255.8</b>	<b>1,357.6</b>	<b>1,444.8</b>	<b>2,150.7</b>	<b>1,521.8</b>	<b>968.9</b>
Long term Borrowings	5,689.4	4,976.0	5,462.6	4,907.7	5,770.4	5,361.4	Capital Expenditure	-1,436.8	-622.8	-1,550.6	-829.7	-2,110.5	-528.4
Short term Borrowings	0.0	0.0	0.0	0.0	170.2	171.0	Other Investment Activities	1,028.0	274.6	825.2	361.9	584.7	78.9
Deferred Tax Liabilities (Net)	-1.2	-2.0	-0.9	-12.2	-11.2	207.8	<b>Cash Flow from Investing</b>	<b>-408.8</b>	<b>-348.2</b>	<b>-725.4</b>	<b>-467.8</b>	<b>-1,525.8</b>	<b>-449.5</b>
Other Non Current Liabilities	0.0	0.0	0.0	27.2	25.0	22.9	Changes in Share Capital	0.0	-42.2	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>12,030.0</b>	<b>11,746.9</b>	<b>12,892.3</b>	<b>11,486.2</b>	<b>13,177.7</b>	<b>12,692.3</b>	Changes in Borrowings	17.4	-1,141.6	240.3	-1,011.9	1,125.5	-593.6
Gross Block	12,462.5	12,966.1	14,380.8	11,450.3	13,421.2	13,811.2	Dividend & DDT	-105.5	-128.6	-135.4	-312.5	-54.3	-98.0
Less: Acc. D&A	2,778.1	3,123.9	3,492.6	2,525.6	3,116.9	4,002.7	Others	-354.0	-384.7	-333.2	-352.3	-357.9	-466.3
<b>Net Block</b>	<b>9,684.4</b>	<b>9,842.2</b>	<b>10,888.3</b>	<b>8,924.7</b>	<b>10,304.3</b>	<b>9,808.5</b>	<b>Cash Flow from Financing</b>	<b>-442.1</b>	<b>-1,697.1</b>	<b>-228.3</b>	<b>-1,676.7</b>	<b>713.3</b>	<b>-1,157.9</b>
Capital Work in Progress	19.5	358.2	226.6	328.3	21.7	13.5	<b>Net Change in Cash</b>	<b>404.9</b>	<b>-687.6</b>	<b>491.1</b>	<b>6.2</b>	<b>709.3</b>	<b>-638.4</b>
Non current Investments	0.0	30.0	0.0	0.0	3.5	68.7	<b>Opening Cash Balance</b>	<b>934.7</b>	<b>1,339.6</b>	<b>651.9</b>	<b>759.1</b>	<b>793.0</b>	<b>1,480.4</b>
Long term Loans & Advances	16.0	26.0	322.4	5.7	113.6	132.0	<b>Closing Cash Balance</b>	<b>1,339.6</b>	<b>651.9</b>	<b>1,143.0</b>	<b>793.0</b>	<b>1,480.4</b>	<b>878.7</b>
Net Current assets	2,212.2	1,381.0	1,321.2	2,120.0	2,698.5	2,609.9							
Other Non Current Assets	97.9	109.5	133.9	107.4	35.5	59.7							
<b>Total Assets</b>	<b>12,030.0</b>	<b>11,746.9</b>	<b>12,892.3</b>	<b>11,486.1</b>	<b>13,177.0</b>	<b>12,692.3</b>							

Source: Company Reports &amp; Ventura Research

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