

The Great Eastern Shipping Co.

Performance Highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
Net sales	556	631	(11.9)	706	(21.3)
EBITDA	202	259	(21.9)	199	1.5
OPM margin (%)	36.4	41.1	(469)bp	28.2	817bp
PAT	117	169	(30.3)	94	24.5

Source: Company; Angel Research

Gesco reported subdued 3QFY2011 results due to lower tonnage and average time charter yields (TCYs). Management reported a decline in NAV at ₹362/share for 3QFY2011 (₹382/share in 2QFY2011), as second-hand asset prices fell considerably. Management also guided that in the absence of a price-arbitrage, tankers (4–5% of the world's fleet) earlier used for oil storage have returned to the active fleet, plagued by over supply. Gesco shelved plans of listing GIL, in light of prevailing market conditions. **We maintain Buy on the stock.**

Weakness persists in the shipping sector; offshore chugs on: Gesco's consolidated revenue (excl. gain on sale of vessels) declined by 21.3% yoy and 11.9% qoq to ₹556cr. The shipping segment's revenue declined by 26.9% yoy ₹434cr due to lower revenue days (down 12.7% yoy) and avg. TCY for product tankers (down 19% yoy) and dry bulk carriers (down 4% yoy). The offshore segment's revenue grew by 4.0% yoy to ₹210cr, driven by increased operating days (7.4% yoy). On yoy basis, EBIT margins for the shipping and offshore segments improved by 559bp and 2,422bp respectively. Consequently, consolidated EBITDA margin stood at 36.4% (up 817bp yoy but down 469bp qoq). Gesco reported gain of ₹55cr from the sale of vessels vis-à-vis nil in 3QFY2010 and ₹26cr in 2QFY2011. Moreover, the company reported marginal forex gains vis-à-vis loss of ₹37cr in 3QFY2010 and ₹32cr in 2QFY2011. Consequently, reported PAT increased by 24.5% yoy, but declined by 30.3% qoq, to ₹117cr.

Outlook and valuation: We have revised our earnings estimates downwards by 14.7% and 26.1% for FY2011E and FY2012E, respectively, to factor an over-supply scenario in the tanker and dry bulk carrier segments, which would constrain utilisation levels and TCYs in the near future. We expect healthy performance from the offshore segment (~33% share in the top line) with addition of 8 vessels to the current fleet of 18 and value the business at 5.0x (unchanged) FY2012E EV/EBITDA, in line with global peers. At the CMP of 290, the stock trades at 5.8x P/E and 0.7x P/B on FY2012E. **We maintain Buy with a revised Target Price of ₹360 (earlier ₹396).**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	3,801	2,891	2,435	3,011
% chg	21.4	(23.9)	(15.8)	23.6
Net profit	1,418	513	580	760
% chg	(2.4)	(63.8)	13.2	30.9
EBITDA (%)	40.8	33.7	39.4	40.2
EPS (₹)	93.1	33.7	38.1	49.9
P/E (x)	3.1	8.6	7.6	5.8
P/BV (x)	0.8	0.8	0.7	0.7
RoE (%)	29.7	9.4	9.8	11.9
RoCE (%)	13.2	5.3	4.8	6.2
EV/Sales (x)	1.7	2.8	3.3	2.8
EV/EBITDA (x)	4.2	8.3	8.3	6.9

Source: Company; Angel Research

BUY

CMP	₹290
Target Price	₹360

Investment Period	12 Months
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Stock Info

Sector	Shipping
Market Cap (₹ cr)	4,432
Beta	1.1
52 Week High / Low	393/255
Avg. Daily Volume	92,744
Face Value (₹)	10
BSE Sensex	18,202
Nifty	5,456
Reuters Code	GESC.BO
Bloomberg Code	GESCO@IN

Shareholding Pattern (%)

Promoters	30.0
MF / Banks / Indian Fls	26.9
FII / NRIs / OCBs	17.3
Indian Public / Others	25.8

Abs. (%)	3m	1yr	3yr
Sensex	(9.7)	12.7	2.5
Gesco	(22.4)	7.5	(23.8)

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Exhibit 1: 3QFY2011 performance (Consolidated)

Y/E March (₹ cr)	3QFY11	2QFY11	% qoq	3QFY10	% yoy
Net sales	556	631	(11.9)	706	(21.3)
Total expenditure	354	372	(4.9)	507	(30.2)
EBIDTA	202	259	(21.9)	199	1.5
EBIDTA margin (%)	36.4	41.1	(469)bp	28.2	817bp
Depreciation	106	100	6.2	109	(3.0)
Interest	49	33	46.8	51	(3.9)
Gain on sale of vessel	55	26	112.4	0	
Foreign exchange (gain)/loss	1	(32)		(37)	
Other income	33	60	(44.2)	90	(63.0)
PBT	137	179	(23.5)	92	48.4
Tax	19	10	95.9	(2)	
Tax rate (%)	13.7	5.3	833bp	(2.1)	
Adj PAT	118	170	(30.3)	94	25.5
EO/Prior Period Items	0	0		0	
Minority Interest	1	1		0	
Reported PAT	117	169	(30.3)	94	24.5
PAT margin (%)	21.1	26.7	(560)bp	13.4	776bp
Number of shares (cr)	15	15		15	
Adj EPS (₹)	7.7	11.1	(30.3)	6.2	24.5

Source: Company, Angel Research; Note: *Excl. gain from sale of vessels; #Excl. gain/(loss) from forex transactions

Exhibit 2: Segment-wise performance

Y/E March (₹ cr)	3QFY11	2QFY11	% qoq	3QFY10	% yoy
Revenue	644	716	(10.1)	796	(19.1)
Shipping	434	478	(9.1)	594	(26.9)
Offshore	210	238	(11.9)	202	4.0
Others	(0)	0		0	
PBIT	186	213	(12.6)	143	29.9
Shipping	114	130	(12.3)	123	(7.2)
Offshore	71	82	(13.1)	20	261.1
Others	0	0		0	
Margins (%)	28.8	29.7	(83)bp	18.0	1,087bp
Shipping	26.3	27.3	(94)bp	20.7	559bp
Offshore	34.0	34.5	(48)bp	9.8	2,422bp

Source: Company, Angel Research

Exhibit 3: Quarterly TCY trend

Average TCY (US \$/Day)	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	% yoy	% qoq
Crude carriers	37,653	34,450	23,819	18,779	17,778	29,322	20,444	20,156	18,000	1.2	(10.7)
Product carriers (incl. gas carriers)	23,120	21,495	17,088	18,865	19,131	17,920	15,485	16,953	15,351	(19.8)	(9.4)
Dry bulk carriers	30,816	23,264	19,489	17,065	20,964	23,963	24,484	19,833	20,141	(3.9)	1.6

Source: Company, Angel Research

Weak market dynamics weigh on the shipping business

For 3QFY2011, Gesco's owned tonnage (incl. inchartered) declined by 12.3% yoy, coupled with revenue days falling by 12.6% yoy on account of phase-out of older single-hull vessels. The average TCY declined by steep 19.8% yoy for product tankers (53% of the tanker fleet), while that for crude carriers marginally increased by 1.2% yoy. As per management, on account of an absence of price-arbitrage, tankers earlier used for crude storage (4–5% of the global fleet) are expected to return to the active fleet. Besides, management expects the global fleet to witness gross addition of ~12% in CY2011, with scrapping and slippages resulting in net additions to be at ~8%, which could keep TCYs subdued.

Gesco maintained the spot-time mix for total fleet at ~50:50. Six product tankers are expected to come up for renegotiation by FY2011-end. Going forward, management has guided that revenue visibility for the balance part of FY2011 is around ₹207cr. Crude tankers, product carriers (incl. gas carrier) and bulk carriers are covered to the extent of around 74%, 83% and 62% of their operating days, respectively.

Update on asset purchase and sales

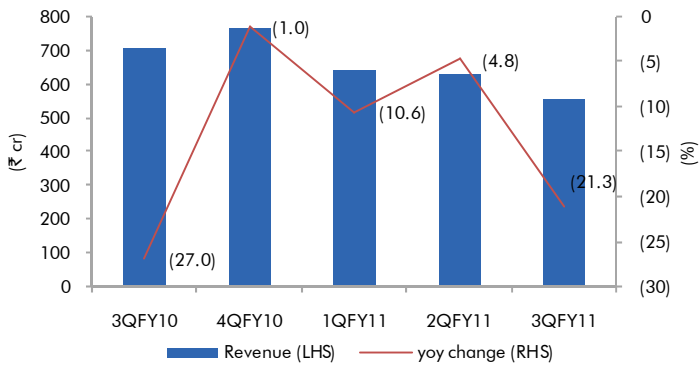
During the quarter, Gesco sold three tankers as part of International Maritime Organisation's mandatory single-hull tanker phase-out by CY2010 and took delivery of a second-hand general purpose tanker. Management has guided that the remaining two single-hull tankers can technically trade up to CY2013–14 and would be scrapped in case of their being commercially unviable.

Greatship (India) Ltd. (GIL), Gesco's offshore subsidiary, took delivery of a PSV/ROV during the quarter and through its subsidiary contracted to construct three PSV/ROVs for delivery between 4QFY2012 and 1HFY2013. The current owned and/or operated fleet of Gesco and its subsidiaries stands at 27 tankers, five dry bulk carriers, four PSVs, seven AHTSVs, three MPSSVs, two ROVSVs and two jack-up rigs.

Well-capitalised balance sheet

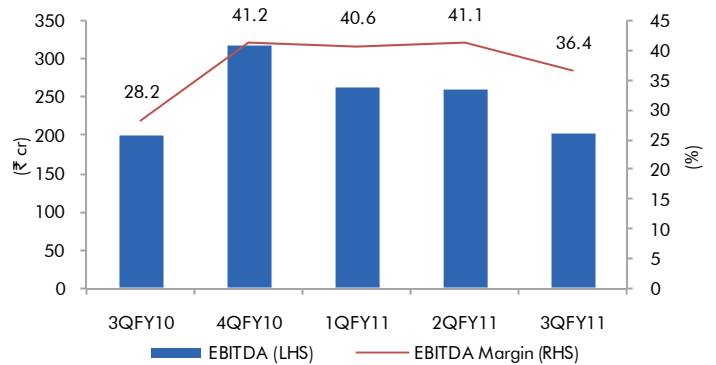
Gesco's consolidated net debt-to-equity stood at 0.26x as of December 2010. Management has planned capex of US \$573mn (US \$260mn already paid) in the shipping segment, resulting in addition of 1.3mn dwt (three VLCCs, two supramaxes and three Kamsarmax dry bulk carriers) to the fleet by FY2013E. Moreover, with withdrawal of the GIL IPO DRHP, Gesco has plans to infuse further investments vis-à-vis ₹1,116cr done so far. The planned capex for the offshore segment is of US \$362mn over the next two years (US \$125mn already paid). GIL and its subsidiaries have an order book of eight vessels – two MSVs, four ROVSVs and two AHTSVs.

Exhibit 4: Quarterly revenue trend



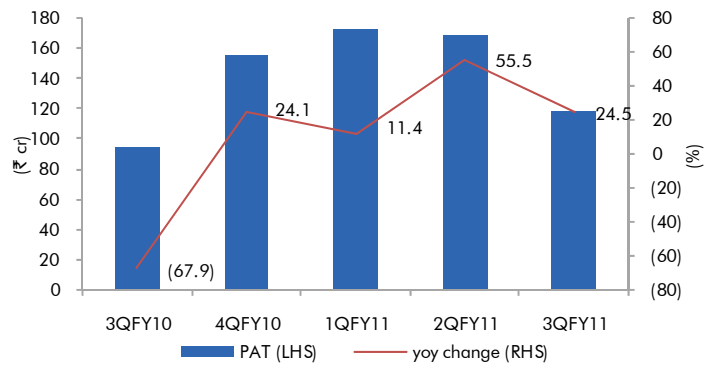
Source: Company, Angel Research

Exhibit 5: Quarterly EBITDA trend



Source: Company, Angel Research

Exhibit 6: Quarterly profitability trend



Source: Company, Angel Research

Exhibit 7: Peer valuation

	Market cap US \$mn	P/E (x)		P/B (x)		EV/EBITDA (x)		EV/Sales (x)		RoE (%)		
		CY11	CY12	CY11	CY12	CY11	CY12	CY11	CY12	CY11	CY12	
Tankers												
Teekay	685	18.4	20.2	1.4	1.5	13.2	13.1	8.3	8.6	6.3	6.2	
Frontline	2,125	27.1	19.6	2.9	3.0	10.8	9.7	6.0	6.0	9.5	11.7	
Ship Finance Intl	1,563	10.9	10.7	1.8	1.8	15.5	15.1	10.4	10.3	18.5	18.3	
Tsakos Energy	455	42.3	6.7	0.5	0.4	9.9	7.1	4.6	3.9	2.0	6.2	
Offshore												
Transocean	25,381	12.2	11.0	1.1	1.1	7.1	6.8	3.3	3.2	9.3	9.9	
Diamond Offshore	10,161	13.1	14.4	2.3	2.2	6.7	7.4	3.2	3.2	19.1	15.0	
Nabors Inds.	559	5.6	4.2	0.9	0.8	7.6	8.0	4.4	4.2	23.9	19.5	
Aban Offshore*	14,162	11.9	10.5	1.8	1.6	12.4	11.0	5.5	4.8	16.2	15.4	
Dry Bulk												
China Cosco Hold	15,806	16.0	13.3	1.9	1.7	8.3	7.1	1.4	1.3	12.5	13.1	
Stx Pan Ocean	1,975	14.9	10.9	0.8	0.8	11.6	9.4	0.7	0.6	5.8	6.5	
Pacific Basin	1,274	11.6	9.6	0.8	0.8	6.3	5.5	1.0	0.9	6.8	7.7	
Diana Shipping	997	8.7	11.7	0.8	0.8	5.9	7.1	3.9	4.3	9.2	6.2	
Average		16.1	11.9	1.4	1.4	9.6	8.9	4.4	4.3	11.6	11.3	
GESCO*	943	7.4	5.7	0.7	0.6	8.2	6.8	3.2	2.7	9.8	11.9	

Source: Company, Bloomberg, Angel Research; Note: * Fiscal year ending (FY2011E and FY2012E)

Investment arguments

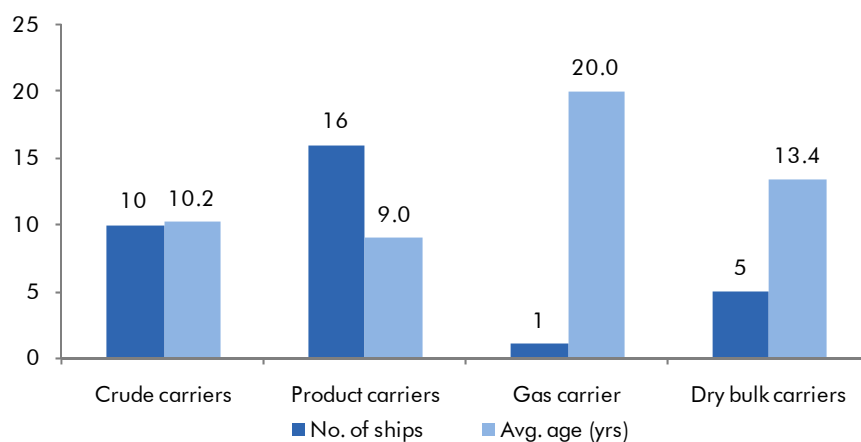
Bottoming out of tanker freight rates holds key

The International Energy Agency (IEA) has revised its global oil demand forecast and expects CY2011 demand to increase to 88.8mb/d from 87.4mb/d in 2010, on stronger demand from OECD North America and non-OECD Asia. Moreover, sustained higher oil prices and reduction in vessel supply on account of mandatory scrapping of single-hull tankers could help charter rates to sustain at current levels. Gesco will be a key beneficiary of higher tanker freight rates as it derives around 46% of its consolidated revenue from the tanker segment.

Relatively younger fleet

Under MARPOL requirements, Gesco has gradually reduced its fleet of single-hull tankers by phasing them out over the past 24 months. This has substantially improved the company's asset quality, with a young fleet of 25 double-hull crude and product tankers. The average age of Gesco's fleet (32 vessels) is around 10.4 years, which is relatively young, given that most vessels have a life of 25 years. Moreover, offshore assets such as platform supply vessels and anchor-handling tugs are relatively young, which enable the company to earn better spot and charter rates.

Exhibit 8: Fleet dynamics

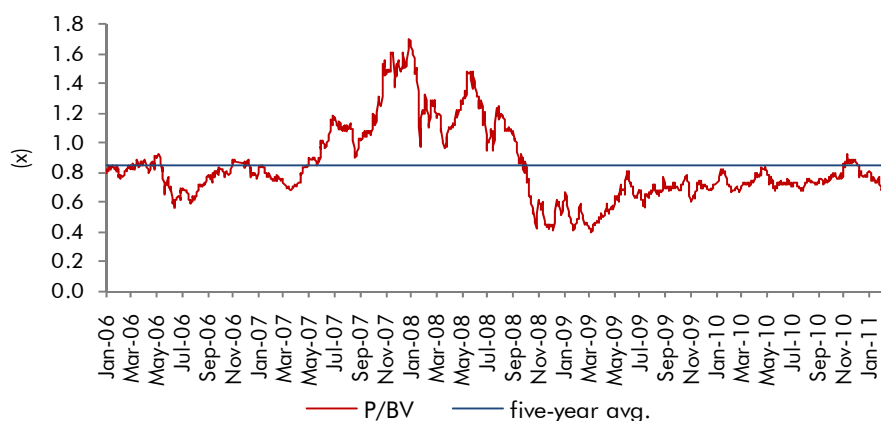


Source: Company, Angel Research

Trading at attractive valuation

Gesco's shipping business has witnessed three consecutive quarters of decline in the top line and the bottom line, reflecting impact of industry headwinds. We revise our earnings estimates downwards by 14.7% and 26.1% for FY2011E and FY2012E, respectively, to factor an over-supply scenario in the tanker and dry bulk carrier segments, which would constrain utilisation levels and TCYs in the near future. We have valued the shipping business on NAV basis, which fetches ₹276/share (10% discount to NAV). We expect healthy performance from the offshore segment (~33% share in the top line) to sustain, with addition of 8 vessels to the current fleet of 18 vessels and value the business at 5.0x (unchanged) FY2012E EV/EBITDA, in line with global peers which fetches ₹84/share. Based on our target price of ₹360, the implied EV/EBITDA, P/BV and P/E multiples work out to 7.8x, 0.8x and 7.2x, respectively, for FY2012E. **Thus, on account of trading at a significant discount to its global peers, we recommend Buy on the stock with a Target Price of ₹360.**

Exhibit 9: Trading below five-year forward P/B



Source: Company, Angel Research

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E
Gross sales	3,108	3,792	2,857	2,395	2,971
Less: Excise duty	-	-	-	-	-
Net Sales	3,108	3,792	2,857	2,395	2,971
Other operating income	22	9	34	40	40
Total operating income	3,131	3,801	2,891	2,435	3,011
% chg	44.5	21.4	(23.9)	(15.8)	23.6
Total Expenditure	1,745	2,251	1,916	1,475	1,801
Personnel	246	303	337	357	361
Repairs & Maintenance	178	226	162	194	175
Op exp excl. exceptional items	667	1,057	708	436	602
Hire of Chartered Ships	592	569	609	351	557
Others	61	96	100	138	105
EBITDA	1,386	1,550	974	960	1,210
% chg	29.8	11.8	(37.1)	(1.4)	26.0
(% of Net Sales)	44.3	40.8	33.7	39.4	40.2
Depreciation & Amortisation	355	454	425	419	487
EBIT	1,031	1,096	550	541	723
% chg	29.0	6.3	(49.8)	(1.5)	33.6
(% of Net Sales)	32.9	28.8	19.0	22.2	24.0
Interest & other Charges	162	185	212	229	249
Other Income	632	542	217	331	361
(% of PBT)	42.1	37.3	39.2	51.5	43.2
Recurring PBT	1,501	1,453	555	643	835
% chg	59.7	(3.2)	(61.8)	16.0	29.8
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	1,501	1,453	555	643	835
Tax	47	45	45	58	75
(% of PBT)	3.2	3.1	8.1	9.0	9.0
PAT (reported)	1,453	1,418	513	580	760
Add: Earnings of associate	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	(5)	-
Prior period items	(0)	10	3	-	-
PAT after MI (reported)	1,453	1,418	513	575	760
ADJ. PAT	1,454	1,408	510	585	760
% chg	60.2	(3.2)	(63.8)	14.8	29.8
(% of Net Sales)	46.4	37.0	17.6	24.0	25.2
Basic EPS (₹)	95.4	93.1	33.7	38.1	49.9
Fully Diluted EPS (₹)	95.4	92.4	33.5	38.4	49.9

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS					
Equity Share Capital	152	152	152	152	152
Reserves & Surplus	4,179	5,080	5,557	5,960	6,505
Shareholders' Funds	4,332	5,232	5,710	6,112	6,658
Minority Interest	-	-	-	-	-
Total Loans	2,747	4,266	5,370	5,300	5,300
Deferred Tax Liability	-	-	(1)	(1)	(1)
Total Liabilities	7,079	9,498	11,079	11,411	11,957
APPLICATION OF FUNDS					
Gross Block	6,590	7,515	8,544	9,102	10,389
Less: Acc. Depreciation	1,747	1,853	2,141	2,560	3,048
Net Block	4,843	5,662	6,402	6,541	7,341
Capital Work-in-Progress	838	1,918	1,101	1,211	1,393
Investments	317	302	2,179	2,179	2,179
Current Assets	1,579	2,713	2,185	2,020	1,792
Cash	1,236	2,218	1,744	1,738	1,352
Loans & Advances	108	172	115	126	139
Other	236	324	326	155	301
Current liabs. & provs.	499	1,098	788	540	748
Net Current Assets	1,081	1,616	1,397	1,480	1,044
Total Assets	7,079	9,498	11,079	11,411	11,957

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	1,501	1,453	555	643	835
Depreciation	355	384	425	419	487
Change in Working Capital	100	21	(38)	41	49
Less: Other income	(108)	231	139	(5)	-
Direct taxes paid	(50)	(47)	(54)	(58)	(75)
Cash Flow from Operations	1,798	2,042	1,026	1,040	1,296
Inc./ (Dec.) in Fixed Assets	(1,972)	(1,823)	(866)	(668)	(1,469)
Inc./ (Dec.) in Investments	(229)	(39)	(1,932)	-	-
Investments in subsidiaries	70	60	25	-	-
Other income	122	147	112	-	-
Cash Flow from Investing	(2,009)	(1,654)	(2,662)	(668)	(1,469)
Issue of Equity	22	3	-	-	-
Inc./ (Dec.) in loans	636	918	1,558	(70)	-
Dividend Paid (Incl. Tax)	(213)	(222)	(46)	(308)	(214)
Others	(172)	(107)	(349)	-	-
Cash Flow from Financing	273	593	1,163	(378)	(214)
Inc./ (Dec.) in Cash	63	981	(474)	(5)	(386)
Opening Cash balances	1,174	1,236	2,218	1,744	1,738
Closing Cash balances	1,236	2,218	1,744	1,738	1,352

Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation Ratio (x)					
P/E (on FDEPS)	3.8	3.9	10.8	9.4	7.2
P/CEPS	3.0	2.9	5.9	5.5	4.4
P/BV	1.3	1.0	1.0	0.9	0.8
Dividend yield (%)	4.2	2.2	2.2	2.8	3.3
EV/Sales	2.2	2.0	3.2	3.7	3.1
EV/EBITDA	5.0	4.9	9.3	9.4	7.8
EV / Total Assets	1.0	0.8	0.8	0.8	0.8
Per Share Data (₹)					
EPS (Basic)	95.4	93.1	33.7	38.1	49.9
EPS (fully diluted)	95.4	92.4	33.5	38.4	49.9
Cash EPS	118.8	122.2	61.3	65.9	81.9
DPS	15.0	8.0	8.0	10.0	12.0
Book Value	284.5	343.6	374.9	401.3	437.2
DuPont Analysis					
EBIT margin	32.9	28.8	19.0	22.2	24.0
Tax retention ratio	0.97	0.97	0.92	0.91	0.91
Asset turnover (x)	0.6	0.6	0.3	0.3	0.3
ROIC (Post-tax)	19.8	16.2	6.1	5.2	6.5
Cost of Debt (Post Tax)	6.2	5.1	4.0	3.9	4.3
Leverage (x)	0.3	0.4	0.5	0.6	0.6
Operating ROE	24.6	20.3	7.1	6.0	7.8
Returns (%)					
ROCE (Pre-tax)	16.5	13.2	5.3	4.8	6.2
Angel ROIC (Pre-tax)	23.2	21.1	8.1	6.5	8.2
ROE	39.0	29.7	9.4	9.8	11.9
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.5	0.5	0.4	0.3	0.3
Inventory / Sales (days)	6	6	10	6	6
Receivables (days)	19	18	29	28	20
Payables (days)	74	114	149	137	121
Working capital (ex-cash, days)	(8)	(36)	(60)	(45)	(34)
Solvency ratios (x)					
Net debt to equity	0.3	0.4	0.6	0.6	0.6
Net debt to EBITDA	1.1	1.3	3.7	3.7	3.3
Interest Coverage (EBIT/Int)	6.4	5.9	2.6	2.4	2.9

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Disclosure of Interest Statement	Great Eastern Shipping
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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