

Greatship (India) Limited

CRISIL IPO Grade 4/5 (Above Average)

November 10, 2010

Grading summary

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Greatship (India) Ltd (Greatship). This grade indicates that the fundamentals of the IPO are above average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade reflects Greatship's competitive strength attributable to its young, technologically-advanced and diverse fleet. The average age of its vessels is much below the global average. Further, some of its vessels are equipped with high-end technologies such as dynamic positioning, fire fighting and diesel-electric propulsion, increasing their chance of securing charter contracts.

Greatship's fleet has a good mix of long-term and short-term charters. The company operates two rigs which have been chartered to India's largest oil and gas PSU for a long term, providing strong revenue visibility. Greatship also stands to benefit from the fact that the Government of India-owned oil and gas companies prefer to award contracts to domestic players.

The grade also takes into account the experience of top management as well as the second line in the offshore services business. Post-IPO, Greatship will remain a subsidiary of Great Eastern Shipping Company Ltd (GESCO), and hence would benefit from the latter's strong brand and financial strength.

The grade is moderated due to the dependence of E&P spend on future outlook of oil prices, which are inherently volatile. Further, the industry is competitive and has established players. The grade is influenced by a high client concentration risk - India's largest oil and gas PSU accounts for a majority of Greatship's revenues (61.2% of 9MFY10 revenues).

Revenues for nine months ended December 2009 were Rs 5,374 mn and profits were Rs 656 mn. The consolidated net worth of the company was Rs 13,160 mn as of December 2009.

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About the company

Greatship was incorporated in June 2002 as a wholly owned subsidiary of GESCO. In April 2006 it started providing marine logistics and drilling services for offshore oil and gas explorations activities. Recently it ventured into offshore construction services.

The company has three wholly owned subsidiaries: Greatship Global Energy Services Pte Ltd, Singapore (drilling services), Greatship Global Offshore Services Pte. Ltd, Singapore (offshore support vessels) and Greatship DOF Subsea Projects Pvt. Ltd, India (offshore construction).

The company owns and operates a fleet of jack-up rigs and offshore support vessels (OSVs). Currently, the company owns one 350-foot jack-up rig, seven anchor handling tug supply vessels (AHTSVs), four platform supply vessels (PSVs), three multipurpose platform supply vessels (MPSSVs) and one remote operate vehicle support vessel (ROVSV). Additionally, the company has chartered one jack-up rig from Mercator Offshore Limited. The company has also placed orders for four ROVSVs, two AHTSVs and two MSVs, which are expected during FY11 and FY12.

The company charters its vessels and rigs to various E&P players in India and abroad. The company has operated in various international markets such as Mexico, South Africa, South East Asia, Middle East, Mediterranean Sea and North Sea. While India's largest oil and gas PSU accounts for a majority of Greatship's revenues, the company has also provided services to various international clients.

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Issue details

Shares offered to public	22,050,875
As per cent of post issue equity	20%
Object of the issue	<ul style="list-style-type: none"> • Funding the acquisition of certain vessels • Early redemption of part of the preference shares issued to the promoter • Funding the repayment of portion of the debt availed by the company • General corporate purposes
Amount proposed to be raised	Not available at the time of grading
Price band	Not available at the time of grading
Lead managers	Kotak Mahindra Capital Company Ltd, DSP Merrill Lynch Ltd, Edelweiss Capital Ltd

Source: DRHP

Detailed Grading Rationale

A. Business Prospects

- *Firm outlook on crude oil prices to lead recovery in E&P spend*

The primary driver for demand of offshore support vessels and rigs is the investment in offshore oil and natural gas exploration, development and production which depends on the future expectation of oil and natural gas prices.

Crude oil and natural gas are expected to remain one of the leading sources of energy worldwide. The demand for crude oil, which had declined by 1.4% in 2009 due to the economic slowdown, is expected to recover as the global economy recovers. CRISIL Research expects global demand for crude oil to increase at 1.2% CAGR over CY09-14. Crude oil prices are also estimated to average between US\$73-77 in CY10 and US\$78-82 in CY11 vs. US\$62 in CY09. The sustained demand for oil and gas, and the firming up of crude prices are expected to revive investment in oil exploration and development internationally

CRISIL Research expects domestic demand for crude oil to increase at 5.9% CAGR over FY10-15 on the back of strong economic growth. Increase in demand for oil and focus on energy security through auctioning of oil blocks under NELP will support E&P activity in India. CRISIL Research expects domestic E&P spend to rise at a five-year CAGR of 11.2% to Rs 757 bn in FY15. E&P spend would primarily be driven by exploration commitments and new discoveries in blocks allotted under NELP.

- *Greatship owns young, technologically-advanced and diverse fleet*

Greatship owns one of the youngest and technologically-advanced fleet. It prefers to do so as a business strategy. The average age of its vessel is significantly lower than the industry average; most of its vessels have been built in the past two-three years. Because of newness, its vessels boast better functionality and operate efficiently than older vessels. Also, all have dynamic positioning capabilities and nine have fire fighting-I capabilities. Further, three of them have diesel-electric propulsion systems which improve fuel efficiency. Such technologies improve the chances of securing charters leading to higher utilisation levels. The company's diverse fleet consists of seven 80T ATHSVs, four PSVs, three MPSSVs, one ROVSV and two jack-up rigs.

Type of vessel	Average age* (in yrs)	
	Greatship	Global industry
PSV	4.3	17.6
AHTSV	0.9	18.9
Jack-up rigs	0.2	23

As on Jan 2010, Source: DRHP

- *Fleet expansion through addition of eight newly built vessels*

Currently, the company has eight vessels (four ROVSVs, two 150T ATHSVs and two MSVs) under construction to be delivered between November 2010 and June 2012.

Of these, four vessels consisting of two ROVSVs and two 150T AHTSVs, would entail a capital expenditure of Rs 5.6 bn. The equity portion of this capex would be financed through IPO proceeds. The company has secured sanction letters from various banks to fund the debt portion of this capex.

- *Good mix of long-term, short-term charters*

Greatship's fleet has a good mix of long-term and short-term charters. Both its jack-up rigs are currently under long-term charters (Greatship Chitra till November 2014 and Greatship Chetana till March 2012) providing strong revenue visibility. Both were chartered at attractive rates during the peak cycle. Further, a majority of its OSVs are operating under long-term charters with duration ranging from one to five years. The company earned approximately 79.1% and 93.1% of its FY09 and 9MDecember2009 revenues, respectively, from charters longer than six months. During the period, the company also operated in spot markets in Middle East and North Sea.

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- *Preference for Indian players in contracts by state-owned oil and gas companies*

All Government of India-owned oil and gas companies (including India's largest oil and gas PSU, who is Greatship's big client) have to carry out international competitive bidding for chartering of rigs and offshore support vessels. However, Indian bidders enjoy a price preference of up to 10% over the lowest acceptable price of the international bidders. In addition, Indian flagged vessels get first right of refusal to undertake contracts at the lowest price offered by international bidders. The preference for Indian flag vessels and operators would benefit Greatship as 10 of its 15 vessels have Indian flags.

- *Greatship would gain from association with GESCO*

Post-IPO, GESCO would continue to hold a majority stake of 78% in Greatship. The established brand of GESCO would help Greatship take advantage of former's experience and relationships with shipyards, brokers, employees and regulators. Greatship also stands to benefit from GESCO's financial strength. For e.g., in the past GESCO has provided performance/corporate guarantees to clients, shipyards and banks on behalf of Greatship.

- *E&P spend is dependent on inherently volatile oil prices*

The E&P spend by oil field owners is dependent on future expectation of oil prices. The offshore and deepwater E&P spend are highly sensitivity to oil prices since they involve higher costs as compared to

onshore blocks. Oil prices are inherently volatile and affected by geo-political and speculative factors apart from the demand-supply scenario. This volatility also affects the charter rates for rigs and offshore support vessels. The company's profitability and ability to repay debt is affected by the charter rates at which it charters out its vessels and rigs.

- *Competitive market*

The oilfield services industry is highly competitive with a presence of large and established players. The day rates for rigs and OSVs are influenced by the international demand-supply scenario as the movement of rigs and OSVs across geographies is possible. The offshore field services industry in India is relatively new and few domestic players provide specific services. However, international majors with integrated services capabilities have already established a strong presence in India.

- *India's largest oil and gas PSU is a major contributor to revenues*

Currently, majority of Greatship's fleet including the rigs are chartered to India's largest oil and gas PSU on long-term contracts. It contributed nearly 61.2% of Greatship's 9MFY10 revenues. This exposes the company to risk in case of loss of client. However, the PSU is a major contributor of revenues to most Indian offshore service providers as it dominates the offshore E&P spend in India. Further, Greatship's revenues were protected during the downcycle as the PSU typically does not renegotiate its contracts.

B. Financial Performance

Greatship's revenues have increased at a CAGR of 282% from Rs 217 mn in FY07 to Rs 3,159 mn in FY09 primarily on account of addition of new vessels to the fleet and new charter contracts executed by the company. EBITDA margins declined from 51.5% in FY07 to 35.6% in FY09. The company had chartered in vessels in FY09 to execute its charter contracts due to which EBITDA margins were low. However, net profits posted a 377% CAGR from Rs 21 mn in FY07 to Rs 475 mn in FY09 and return on net worth improved from 0.8% in FY07 to 3.7% in FY09. The book value of the company increased at 18% CAGR to Rs 137 per share in FY09.

For the nine-month ended December 2009, Greatship posted revenues of Rs 5,374 mn and profits of Rs 656 mn, a 70% and 38% increase over FY09 revenues and profits, respectively. EBITDA margins were 30.9% whereas the return on net worth was 5%. The debt-to-equity ratio was 1.4x as of December 2009.

Financial performance snapshot

		9MFY10	FY09	FY08	FY07
		Actual	Actual	Actual	Actual
		9months	12 months	12 months	12 months
Operating income	Rs mn	5374	3159	893	217
EBIDTA margins	%	30.9%	35.6%	56.3%	51.5%
Net profits	Rs mn	656	475	213	21
RONW	%	5.0%	3.7%	3.2%	0.8%
Basic EPS	Rs	7.0	6.0	5.0	1.9
Diluted EPS	Rs	6.9	5.4	4.9	1.9
No. of equity shares	mn	86.1	86.1	65.1	26.5
Net worth	Rs mn	13160.2	12761.6	6640.9	2612.3
Book value	Rs	135.4	136.6	102.0	98.6
Debt - equity	Times	1.4	0.9	0.4	0.2

Source: DRHP

C. Management Capabilities and Corporate Governance

- *Experienced top management*

Mr Bharat Sheth (Non-Executive Chairman) and Mr Ravi Sheth (Managing Director) are highly experienced in domestic as well as the international shipping industry. While the offshore services industry has typically different clients and contracts than the shipping industry, the operating aspects of the both merchant ships and OSVs are similar. Greatship stands to gain from the top management's experience, especially in areas of purchase/sale of vessels, operations, manning and regulatory requirements. Further, the parent, GESCO, has been associated with the offshore business through its division which was subsequently demerged into Great Offshore Limited.

- *Strong second line of management*

The top management is supported by a strong second line, which has more than 20 years of experience in their respective areas. In addition certain key personnel with Greatship have been earlier associated with GESCO. The operations personnel for the rig business are from internationally-reputed organisations and have a strong experience in rig operations.

- *Vessel and borrowing committees headed by top management*

The company has formed vessel and borrowing committees for making decisions on buying/selling of vessels and borrowings. The committees consist of two top management personnel - Mr Ravi Sheth and Mr P. R. Naware - and are chaired by Mr Bharat Sheth.

- *Experienced and reputed independent directors*

The company has highly qualified independent directors with a vast experience in areas of finance, law and management. The independent directors consist of reputed names that are heads of various organisations in India. Moreover, two of the five independent directors (Mr Mistry and Mr Desai) have been on the Greatship board for three years.

- *Overlap of board members of GESCO and Greatship*

Five of the eight directors on board of Greatship are also on the GESCO board. Three of the five independent directors are present on the GESCO board. Thus, there is an overlap between the two boards.

Annexure I

Business Profile

Business overview

Greatship is in the business of providing drilling and support services for the oil and gas industry. It owns and charters out rigs and OSVs for operations in domestic as well as international markets. Currently, the company owns 15 OSVs and one jack-up rig. It also operates another jack-up rig which it has chartered in from Mercator Offshore Limited (*details of fleet provided in annexure*). While the company primarily operates in Indian waters, it has performed operations in various international locations such as Mexico, South Africa, North Sea, Middle East and South East Asia. The business of the company is divided into three main divisions.

Offshore logistics

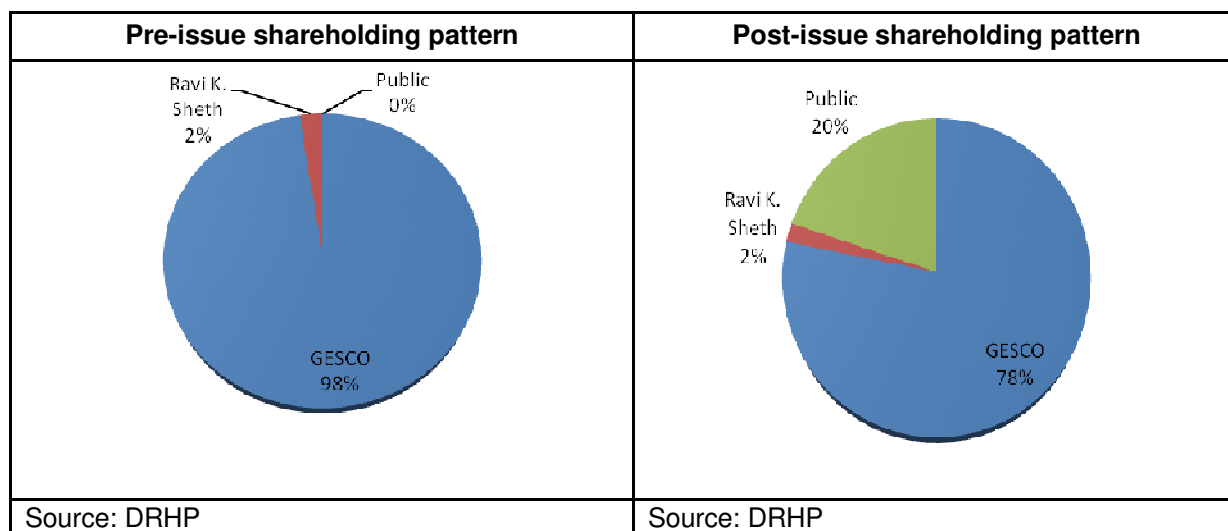
The company provides offshore logistics services such as towing of rigs/platforms and supply of stores and spares to rigs/platforms. The parent company as well as its Singapore based subsidiary GGOS own assets that are used in providing offshore logistical services. The company currently owns and operates seven AHTSVs, four PSVs, three MPSSVs and one ROVSV. Of the current fleet, five vessels have the Singapore flag while the rest have the Indian flag. Most of the company's OSVs are fitted with advance technological features and equipments such as dynamic positioning systems (DP2) and fire fighting systems (FiFi). Most of the vessels run on long-term charters with India's largest Oil & Gas PSU.

Offshore drilling services

The drilling assets of the company are owned by its Singapore-based subsidiary GGES. The company currently owns one 350-foot Cantilever type jack-up rig. It has an in-chartered rig from Mercator Offshore Limited on bareboat charter till March 2012. As compared to the conventional rigs, Greatship has new generation rigs with advanced technical systems such as variable frequency drives, top-drive drilling systems and high pressure mud pumps. This enhances efficiency and operational capability of the rigs and has better safety features. Both the rigs are currently deployed in the West Coast with India's largest oil & gas PSU on long-term charter contracts.

Offshore construction

The company has recently started its offshore construction/subsea business and has already carried out its first subsea contract. It has built the team in-house and has recruited people with relevant experience who were previously working with reputed international subsea construction companies.



Offshore support vessel fleet

Name of Vessel	Type	Year Built	Yard	DWT	Flag State	DP	FF	BHP	Company	Client	End
Aarti	80T AHTSV	2009	Labroy	1650	India	II	I	7080	GIL	India's largest oil & gas PSU	Oct-12
Aditi	80T AHTSV	2009	Colombo	2057	Singapore	II	I	7080	GGOS		
Ahalaya	80T AHTSV	2009	Labroy	1643	India	II	I	7080	GIL	Hercules	Mar-11
Akhila	80T AHTSV	2009	Labroy	1639	India	II	I	7080	GIL	India's largest oil & gas PSU	Apr-12
Amrita	80T AHTSV	2008	Colombo	2045	India	II	I	7080	GIL	India's largest oil & gas PSU	Mar-13
Anjali	80T AHTSV	2008	Colombo	2188	India	II	I	7080	GIL		
Asmi	80T AHTSV	2009	Labroy	1634	India	II	I	7080	GIL	India's largest oil & gas PSU	Mar-11
Dhriti	PSV	2008	Brattvaag	3318	India	II	I	5379	GIL		
Dhwani	PSV	2008	Brattvaag	3315	India	II	I	5379	GIL	India's largest oil & gas PSU	Mar-13
Dipti	PSV	2005	Brevik	3229	India	II	-	5376	GIL	India's largest oil & gas PSU	Apr-12
Disha	PSV	1999	Aker Brevik	3096	India	I	-	5378	GIL	India's largest oil & gas PSU	Jun-12
Maya	MPSSV	2009	Keppel	4252	Singapore	II	-	-	GGOS	GC Rieber	Dec-11
Ramya	ROVSV	2010	Colombo	3600	Singapore	II	-	6220	GGOS		
Mamta	MPSSV	2010	Keppel	4300	Singapore	II	-	10938	GGOS		
Manisha	MPSSV	2010	Keppel	4300	Singapore	II	-	10938	GGOS		

Source: DRHP. Company

Drilling rig fleet

Name of rig	Type	Year built	Yard	Flag	Water depth	Drilling depth	Company	Client	End
Chetna	Jack-up	2009	Keppel	Singapore	< 350	< 30000	GGES	India's largest oil & gas PSU	Mar-12
Chitra*	Jack-up	2009	Keppel	Singapore	< 350	< 30000	GGES	India's largest oil & gas PSU	Nov-14

Source: DRHP. Company

Vessels on order

Name of vessel	Type	Joining date	Year built	Yard	DWT	Flag state	DP	FF	BHP	Company
Rohini	ROVSV	Nov-10	2010	Colombo	3600	India	II	-	6220	GIL
Rashi	ROVSV	Feb-11	2011	Colombo	3600	India	II	-	6220	GIL
Shakti	150T AHTSV	Jun-11	2011	Drydocks	2950	India	II	I	12064	GIL
Shanti	150T AHTSV	Sep-11	2011	Drydocks	2950	India	II	I	12064	GIL
Laxmi	MSV	Mar-11	2011	Mazgaon	4000	Singapore	II	-	10938	GGOS
Leela	MSV	Jun-11	2011	Mazgaon	4000	Singapore	II	-	10938	GGOS
To be named	ROVSV	Mar-12	2012	Colombo	3600	Singapore	II	I	6320	-
To be named	ROVSV	Jun-12	2012	Colombo	3600	Singapore	II	I	6320	-

Source: DRHP. Company

Annexure II: Profile of the Directors

BOARD OF DIRECTORS						
Name	Designation	Age	Qualification	Yrs of Experience	Previous Employment	Directorships / partnership in other entities
Mr Bharat K Sheth	Non-Executive Chairman	52	Bachelor of Science (Economics) - St. Andrews University, Scotland	28		GESCO, The Great Eastern Shipping Company (London) Ltd, Sea Change Maritime LLC, North of England P&I Association Ltd, Steamship Mutual Underwriting Association; Bhiwandiwalla & Company; Safe Enterprises
Mr Ravi K. Sheth	Managing Director	48	BCOM -H.R College, Mumbai; Masters Degree in Business Administration - Babson College, USA	20	Co-founded Godrej Foods Ltd- Vice President	GESCO, Financial Technologies(India) Limited, AH Bhiwandiwalla Investments Private Ltd, Artex India Private Ltd, Greatship Global Holdings Ltd, Greatship DOF Subsea Projects Private Ltd; Bhiwandiwalla & Company; Safe Enterprises
Mr P.R. Naware	Executive Director	57	BSc. & Bachelor Degree in Law from University of Pune; Associate member of the ICSI	35	Kirloskar Oil Engines Ltd- Company Secretary	The Greatship (Singapore) Pte Ltd; Greatship Global Energy Services Pte Ltd; Greatship Global Holdings Ltd; Greatship Global Offshore Services Pte Ltd; Greatship DOF Subsea Projects Private Ltd
Mr Keki M. Mistry	Non Executive Independent Director	55	Member of ICAI; Certified Public Accountant- Michigan Institute, USA	30	Indian Hotels Company Ltd; Consultant for the Mauritius Housing Company in Mauritius; Asian Development Bank- Consultant; Deputed for Consultancy assignments in Thailand	HDFC; HDFC Bank Ltd; HDFC Developers Ltd; HDFC Standard Life Insurance Company Ltd; HDFC EGRO General Insurance Co Ltd; HDFC Asset Management Co Ltd; GRUH Finance Ltd; IL&FS; Sun Pharmaceuticals Ind Ltd; GESCO; Next Gen Publishing Ltd; Shrenuj & Company Ltd; Torrent Power Ltd; Griha Invest; India Value Fund Advisors Pvt Ltd; Association of Leasing & Financial Services Co; Intellect Global Services Pvt Ltd
Mr Berjis Desai	Non Executive Independent Director	56	Masters degree in Law- Cambridge University, UK	NA	Also the Solicitor of the Bombay Incorporated Law Society since 1982; Also the Managing Partner of J Sagar Associates	Sterlite Industries (India) Ltd; GESCO, NOCIL Ltd; Praj Industries Ltd; Emcure Pharma; Centrum Fiscal Pvt Ltd; Capricorn Studfarm Pvt Ltd; Capricorn Agrifarms & Deves Pvt Ltd; Capricorn Plaza Pvt Ltd; Sabre Capital Invest Advisors Pvt Ltd; Equine Bloodstock Pvt Ltd; Spring Healthcare Adv Pvt Ltd; Edelweiss Capital Ltd; Eden Realtors Pvt Ltd; Deepak Nitrite Ltd; BioEnergy Europa BV; JSA Law Ltd(Dubai); JSA Lex Holdings Ltd; J Sagar Associates

Mr Vineet Nayar	Non Executive Independent Director	71	Masters degree in Development Economics- Williams College, USA	NA	IAS; District Magistrate Secretary- Agriculture & Rural Development for the Government of Haryana; Director- DEA, Gol; World Bank; CH& MD GAIL; MD of HCL Corp; VC of HCL technologies Ltd	Tech Mahindra Ltd; Tech Mahindra(Americas Inc); Tech Mahindra GmbH; Tech Mahindra(Thailand) Ltd; Tech Mahindra Foundation; Tech Mahindra (Beijing)IT services; Kotak Mahindra Old Mutual Life Insurance Ltd; GESCO; Vidya Investments Pvt Ltd; CanvasM Technologies Ltd; Mahindra Holidays and Resorts India Ltd; Vidya Education Investments Private Ltd; Essel Social Welfare Foundation; Maurya Education Company Private Limited; Venturbay Consultants Pvt Ltd; The Mahindra United World College of India; Mahindra Logisoft Business Solutions Ltd; Satyam Computer Services
Mr Rajiv B. Lall	Non- Executive Independent Director	52	Bachelor's degree of Arts in Politics, Philosophy and Economics- Oxford University; Ph.D in Economics- Columbia University	NA	Warbug Pincus; Exec Director & Head- Asian Economic Research of Morgan Stanley Asia Ltd(Hong Kong); World Bank in Washington; ADB in Manila; Asst Prof with Florida Atlantic University.	IDFC; IDFC Trustee Company Ltd; IDFC private Equity Company Ltd; IDFC Projects Ltd; IDFC Securities Ltd; IDFC Capital Ltd; IDFC Project Equity Company Ltd; IDFC Asset Mgt Co Ltd; NSDL; NSE; Spandana Sphoorty Financial Ltd; Delhi Integrated Multi Modal Transit System Ltd; Dheeru Powergen Pvt Ltd; Singapore Airport Terminal Services Pte. Ltd; IDFC Capital Pte. Ltd
Mr Shashak Singh	Non- Executive Independent Director	33	MBA from Harvard Business School; First Class Degree in Economics from Cambridge University	NA	Strategy Consultant- Monitor Company;	Apax Partners India Advisers Pvt Ltd

Source: DRHP

Disclaimer

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