

GE Shipping Company Ltd.
Earnings Conference Call
(July 21, 2008)

Moderator: Good evening ladies and gentleman, thank you for standing by. Welcome to the GE Shipping's earnings call on declaration of its un-audited financial results for the 1st Quarter ended June 30th, 2008. At this moment, all participants are in a listen only mode. Later we will conduct a question and answer session. At that time, if you have a question please press * and 1. I now handover the conference to Ms. Anjali Kumar, head of the corporate communication at the GE Shipping Company Ltd to start the conference call. Over to you Ms. Kumar.

Anjali Kumar: Good afternoon ladies and gentleman. On behalf of GE Shipping, I welcome you all to the earnings call of Q1FY2009. We have with us here today our deputy chairman and managing director Mr. Bharat Sheth and our CFO Mr. Balan Wasudeo and the entire top management team from shipping and offshore business. I trust all of you will have a copy of our results by now, the one which we declared on Friday, 18thJul'08. And all of you may have already seen the stellar performance numbers reported by our company. Since most of you would have already digested our results by now, we just thought we will do this conference call in a slightly different manner today. We will have our deputy chairman and managing director take you through the actual operational performance that has gone in generating the numbers that all of you have already read. Over to you Mr. Bharat Sheth.

Mr. Bharat Sheth: Thank you Anjali and good afternoon everyone. As Anjali said, all of you would have had the benefit of seeing our results over the last 72 hours. And rather than discuss it through an accounting format, we will highlight some of the more qualitative aspects of the Q1 FY2009 results. I would begin with the total available days for the shipping business on a standalone basis. This was 4124 for Q1FY2009 as opposed to 4433 for Q1FY08. Out of these total available days, 444 days were non-revenue days due to either repair and/or unplanned offhire as well as the time taken for positioning ships towards dry docks. As opposed to the 444 days for Q1FY2009 the corresponding number was 106 days in Q1FY2008. Therefore the total revenue days available in Q1FY2009 were 3680 days and the corresponding number for Q1FY2008 was 4327 days. Out of these revenue days, 2027 days were in the spot market representing 55% of the total revenue days and the corresponding number for Q1FY2008 was 1644 representing 38% in Q1FY2008. If I could interrupt here, the 55% of spot revenue days has really stood us in very good stead, purely due to the very strong spot market earnings for both tankers as well as dry bulk. This together with the profit on sale of ships. For Q1FY2009 we realized Rs.254 crs as profit on sale of ships as compared to Rs.79 crs in Q1FY2008. So a combination of enhanced spot earning days as well as additional profit generated through sale of vessels led to our total income in Q1FY2009 of Rs.993 crs as opposed to Rs.754 crs in Q1FY2008. This represented an increase of a little over at 30%. The total number of ships for dry docks during Q1FY2009 was 6 as compared to 3 in Q1FY2008. And this culminated in a dry dock expenditure of Rs.36.5 crs in Q1FY2009 as opposed to Rs.9.5 crs in Q1FY2008. The aspects pertaining to other income, administration cost etc. were much of a muchness and I will therefore not dwell into that. The operating PBIT excluding profit on sale of ships for Q1FY2009 was a little over Rs.419 crs as opposed to Rs.351 crs for Q1FY2008. Our operating margin therefore went up to 55% in Q1FY2009 as opposed to 49% in Q1FY2008. If you include

the profit on sale of ships then the PBIT is Rs.673 crs for Q1FY2009 as opposed to Rs. 430 crs for Q1FY2008 resulting in an increase of 57%. Our interest cost for Q1FY2009 was more or less in line with Q1FY2008 at a little over Rs.38 crs. The depreciation charge was at Rs.78 crs in Q1FY2009 as compared to Rs.83 crs in Q1FY2008. And therefore provisions for tax was little higher in Q1FY2009 at Rs.31 crs compared to just Rs.9 crs in Q1FY2008 and the reason for this additional taxation was because profit on sale of ship does not get the entitlement of tonnage tax benefits and we have to pay tax as per MAT. And therefore the net profit at an operating level was Rs.521 crs for Q1FY2009 compared to Rs.318 crs for Q1FY2008 which results in an improvement of about 64%. That is an explanation on the revenue side.

As far as the balance sheet is concerned the average capital employed for Q1FY2009 was Rs.6880 crs as compared to Rs.5440 crs for Q1FY2008 meaning an addition of 27%. Of this total capital employed, approx Rs.4300 crs was employed in the principal business of the company which is mainland shipping versus Rs.3600 crs for Q1FY2008 representing an increase of about 19%. Our investment in our wholly owned subsidiary and this refers to the oil and gas business was Rs.744 crs for Q1FY2009 as compared to Rs.307 crs for Q1FY2008. The total DWT for the shipping business was 2.85 mn dwt with an average age of 10.6 years compared to 3.22 mn dwt for Q1FY2008 with an average age of 12.2 years. So you will see that although in terms of DWT there was a slight drop, the average age over the one year has improved considerably. The total cash as of 30th June 2008 was just under Rs.1700 crs and the total cash that we generated for Q1FY9 was little over Rs.600 crs as compared to a little under Rs.400 crs for Q1FY2008. I think these are really the highlights for the quarter under discussion and now I am quite happy to take any questions that you all might have. Thank you.

Moderator: Thank you sir. Ladies and gentleman we will now begin the live question and answer session. Our first question comes from Mr. Arun from Capital market.

Mr. Arun: What is the FOREX loan at the end June 2008?

Mr. Bharat Sheth: Do you want the rupee equivalent?

Mr. Arun: Yes.

Mr. Bharat Sheth: The rupee equivalent loan was about a little over Rs.2500 crs.

Mr. Arun: What is the corresponding figure at the end of March 2008 as well as June 2007?

Mr. Bharat Sheth: Between March 2008 and June 2008 it was much of a muchness. Because what happened in March 2008 was that the loans got revalued at a little over Rs.40 to the dollar and as of 30th June they got revalued at a little around Rs.43 to the dollar.

Mr. Arun: In terms of US dollar how much is the loan?

Mr. Bharat Sheth: About US\$ 580 mn.

Mr. Arun: What is the CAPEX schedule and how much of it would be funded through overseas borrowings and foreign currency borrowings? How much it would be in rupee terms?

Mr. Bharat Sheth: All our capital expenditure is dollar or in dollar dominated form. The total capital expenditure as on date is approx US\$780 mn.

Mr. Arun: So how much of it is expected to be incurred in FY2009?

Mr. Bharat Sheth: In FY2009 we will have about US\$104 mn. In FY2010 it will be US\$ 180 mn, in FY2011 it is US\$140mn and US\$ 350 mn in FY2012.

Mr. Arun: Okay, sir. Thanks a lot. I will come back for the follow-up question?

Moderator: Our next question comes from Mr. Parag Gupta from Morgan Stanley.

Mr. Parag Gupta: These are the couple of questions. Firstly could you just give us the idea of how you are seeing the tanker and the bulk space, given that there are signs of some of slowdown in China as well, or we are going to see any significant impact on the freight rates or on assets prices on account of that?

Mr. Bharat Sheth: The current thinking is that the cycle in both the tanker as well as the dry bulk will continue. The freight earnings will continue to be strong and with that so will assets prices. We are not really seeing any slowdown in China in terms of their demand for industrial raw materials be it Iron ore or coal and at the same time nor have we seen any real slowdown for the demand of crude oil.

Mr. Parag Gupta: Okay. Also could you just give us some idea of how are you planning to keep your vessels going forward what percentage would be on spot what percentage would be on charter given that if the rates were to spike up in either segments. How would you like to take advantage of that?

Mr. Bharat Sheth: I think I have mentioned that for Q1FY09, 55% of our total revenue days were in the spot market and I think that would broadly be the percentage exposure to the spot market for the remainder of this financial year.

Mr. Parag Gupta: So 55% would be for tankers and would it be the same for bulkers or would bulkers give about 33%?

Mr. Bharat Sheth: No. 55% is the average between bulkers and tankers.

Mr. Parag Gupta: Okay, and would you give us some idea what is your NAV as of June and may be a breakup into cash, bulkers and tankers?

Mr. Bharat Sheth: Yes. Broadly the NAV as on 30th June will be somewhere between Rs.620 and Rs.630 a share. Rs.110 out of that is probably cash.

Mr. Parag Gupta: And would it be safe to assume that out of the balance about 70% would be tanker?

Mr. Bharat Sheth: Yes. Roughly about 70% would be tankers and 30% would be dry bulk in terms of market value of the assets.

Mr. Parag Gupta: We have seen significant improvement in your margins with this quarter. Just wanted to understand, are you seeing any impact on account of increasing bunker cost or increasing manpower cost going forward, or do you see that to be in line of Q1FY09?

Mr. Bharat Sheth: I think over the next few quarters it will probably be maintained where it is. As far as bunker cost are concerned, due to the strength in the market, we are in a position to pass on these costs to the customers and therefore the increase in the bunkers which has been pretty substantial is something that is unlikely to impact our margins.

Moderator: Our next question comes from Mr. Pinaki from TradeWind.

Mr. Pinaki: I want to know how are these two new building Suezmax tankers ordered at Hyundai going to add to your fleet or going to add value to your fleet and post 2010 after IMO Regulations come to effect, because I believe this year alone about 270 odd tankers are going to be added to the global fleet and I was told that this is going to add pressure to the rising tanker freight rates over the period of time and this might ease pressure and lower the freight rates in the coming time. So do you think that is going to add value to your fleet precisely?

Mr. Bharat Sheth: Yes we think, it will add value. That is the reason why we have ordered them. Plus as you can see values of vessels both in the second hand market as well as in the new building front are going up all the time. We had been working on this project for the last many weeks and I don't think we could repeat a fresh order today at the price at which we were managed to get these orders.

Mr. Pinaki: It is above \$95 mn for a new building of this size. I do not know what cost did you pay for it or what cost did you place your order, if it is so, then why not go for new building orders for the handysize? So is this going to replace your over aged handysizes that you have right now.

Mr. Bharat Sheth: We are replacing the drybulk fleet as well. We have got eight new buildings coming up. Four of these are due in calendar 2010 and four are due in calendar 2011.

Mr. Pinaki: So this year will you be disposing two handysizes that you have?

Mr. Bharat Sheth: No, not this year. We just completed the dry docking surveys on both the handysize vessel. So it is our intention currently to run them for the next three years at least.

Mr. Pinaki: Three years. That is about till 2011?

Mr. Bharat Sheth: Yes till 2011.

Mr. Pinaki: So that is beyond the IMO regulations?

Mr. Bharat Sheth: The IMO regulation would not impact bulk carriers. They only impact tankers.

Mr. Pinaki: The average earnings of our product carriers have marginally declined by about 0.2% in Q1FY09. Do you think that this going to slide further down this year?

Mr. Bharat Sheth: We had a very good start to Q2FY09 on the products tanker earning. What will happen over the next few months I don't know. But clearly there is a slow down in the import requirements or product in to the United States particularly gasoline, but it will now depend on what incremental demand we get from other parts of the world like West Africa and South America.

Mr. Pinaki: And not China?

Mr. Bharat Sheth: Most of our products fleet is currently trading in the Atlantic as opposed to trading in the east. So we are now vulnerable to what happens in the Atlantic. But if we look at the product demand into China, you know it adds and slows in different weeks, so, but on the whole we think that the product demand will remain relatively strong.

Moderator: Thank you Mr. Pinaki. Our next question comes from Mr. Nikhil Vora from IDFC SSKI Securities.

Mr. Vora: Looking at our fleet acquisition in the next three years, the cumulative DWT has not increased significantly. It's less than 10% growth over that period. So is that the reading that the markets are not likely to be very strong over that period?

Mr. Bharat Sheth: No, not at all. This is only that what is committed just now. So I don't think it is fair to say that this is what the position could be three years from now.

Mr. Vora: Okay. And on the offshore side, I believe we have also taken a rig on lease?

Mr. Bharat Sheth: That is correct.

Mr. Vora: Can you tell us what is the status on that?

Mr. Bharat Sheth: We are to take delivery of that rig in March 2009 and as we speak she has not been committed for any business?

Mr. Vora: In your AGM you mentioned that the offshore business is likely to do return on equity of over 25%. What makes you so confident of that return?

Mr. Bharat Sheth: What we said is that once the fleet is in the water we should get a 25% plus return on equity in that business and that confidence stands from looking at where the forward period market is today and where we think it will be over the next three years.

Mr. Vora: So can we start signing contracts from sometime next year?

Mr. Bharat Sheth: Depends on when the ships are coming up. I don't believe we can sign contracts next year for delivery which are due in 2010, but we could certainly sign contracts for deliveries due in 2009.

Mr. Vora: In Greatship, we have done some equity issuance to sponsors of 15 lakhs odd share, can we just have some details of that?

Mr. Bharat Sheth: Sure, we have done it to a total of 42 lakhs shares and that represents about a 7% dilution and that is being done at Rs. 140 a share.

Mr. Vora: It would mean what market cap?

Mr. Bharat Sheth: What is the market cap, it would be approx US\$ 280 million.

Mr. Vora: IS it US\$ 280 mn.

Mr. Bharat Sheth: Yes.

Mr. Bharat Sheth: And the warrants have been allotted as Rs. 140 a share.

Mr. Vora: You mean that GE Shipping would have 93% stake and 7% would be sponsors right?

Mr. Bharat Sheth: Yes and then there are ESOPs, and so if assuming that all the ESOPs get exhausted then Great Eastern will come down to 90%.

Mr. Vora: And the warrants are payable at 18 month I presume.

Mr. Bharat Sheth: 10% have been already paid.

Mr. Vora: For 18 months?

Mr. Bharat Sheth: 10% have been paid and the balance will be paid anytime before March 2011.

Mr. Vora: Okay. Thank you very much.

Moderator: Our next question comes from Mr. Hemant from Enam Securities.

Mr. Hemant: Just a couple of questions, one was a clarification on the NAV which were given earlier. You have mentioned Rs. 620 to Rs.630 per share. Just wanted to know whether this is pre-debt or post-debt?

Mr. Bharat Sheth: No this post-debt.

Mr. Hemant: I am just confused on that, because I thought we have net debt on books rather than net cash.

Mr. Bharat Sheth: So this is after factoring everything into account. We have added the cash and subtracted the debt to arrive at NAV.

Mr. Hemant: Okay. So the Rs. 110 cash plus 70% tanker, 30% dry and debt obviously subtracted from this.

Mr. Bharat Sheth: Yeah. All that put together.

Mr. Hemant: A couple of questions on the tanker market and this continues to baffle me at least on one front that A) the supply which we expect this year, could you give some sense of what quantum of supply we had expected in calendar 2008 and how much of fleets is really gone into scrapping, conversions, because of IMO regulation and what are the net additions which has happened in 2008?

Mr. Bharat Sheth: I can only give you the number which I have got to date. I will restrict my comments to the larger segments of tonnage because otherwise you know, there are too many segments to go through. For the top two asset classes which is VLCC and Suezmax, net additions as per the data that we have got between the two had been about 21 ships and approximately 25 ships have moved away from the system.

Mr. Hemant: Mr. Bharat I was just expecting consolidated number rather than percentile because that would be too much and in terms of details?

Mr. Bharat Sheth: So what do you want consolidated?

Mr. Hemant: I was just looking at let say the total DWT which is likely to be coming in to this tanker market that will include all the other classes.

Mr. Bharat Sheth: Just for crude, we expect to see on a combined basis of net fleet growth of somewhere a little over 2%.

Mr. Hemant: And this is before the scrapping and conversions and IMO regulations?

Mr. Bharat Sheth: No, no this is net.

Mr. Hemant: And this is against the 5% growth which we saw last year.

Mr. Bharat Sheth: Yes. Because you see some of this what has happened this year is that there are fleets that are not being scrapped, but which are still going out of the systems, either for conversions to FPSO or for conversions to bulk carrier.

Mr. Hemant: And do you get any sense of any kind of deferment in terms of the supply which is likely to come in for the tankers or for the dry bulk market?

Mr. Bharat Sheth: We don't think there will be too many delays on tankers, but for bulk carriers not in 2008, but we do see bulk carriers some which were due in 2009, going into 2010 and depending on the severity of the prices and the yards ability to respond, you might get vessels of 2010, then going into 2011.

Mr. Hemant: Okay.

Mr. Bharat Sheth: And the current numbers that is going around is somewhere between 12% to 15% of deliveries will probably find a slippage.

Mr. Hemant: Okay 12% to 15% of?

Mr. Bharat Sheth: Anticipated delivery of the dry bulk sector could slip.

Mr. Hemant: Okay, so that still means that quantum of supply which is likely to come in dry and tankers will quite remain huge in 2009.

Mr. Bharat Sheth: That is correct.

Moderator: Our next question comes from Mr. Sachin Kasera from PINC Research.

Mr. Kasera: Just a few questions. One is you mentioned regarding dry docking. Is it 6 ships in the current quarter against the last year?

Mr. Bharat Sheth: That is correct. Yeah.

Mr. Kasera: Could you just repeat in term of number of days how would that translate?

Mr. Bharat Sheth: The 6 vessels had a total dry dock days of 314 in Q1 FY09. And the 3 vessels which are dry docked in FY2008 had a total dry dock provision of 57 days.

Mr. Kasera: Okay. So the average number of dry dock per ship also went up basically?

Mr. Bharat Sheth: Yes, but some of it was actually due to the previous quarter and things like that.

Mr. Kasera: Okay sir what could be the trend for remaining quarters of FY2009?

Mr. Bharat Sheth: The next quarter will be fairly light that is Q2 and Q3 and then again there will a spike in Q4. So Q4 I think we will have almost 7 dry docks and in terms of base they could be a little late because some of this is a rollover of as I told you of previous quarter and the total number of ship that we are doing for the course of the whole year is 22.

Mr. Kasera: Okay.

Mr. Bharat Sheth: Of which 6 we have already completed.

Mr. Kasera: Okay. So in terms of the overall dry dock cost will it be up in FY09?

Mr. Bharat Sheth: I think it will be about 20% to 25% higher than previous year.

Mr. Kasera: Okay. In this quarter we have seen the interest cost going up from Rs.31.4 crs to Rs.38 crs. How do you see the trend going for the next three quarters? Do we see the overall loan book reducing which could result in some form of stabilization in the interest cost?

Mr. Bharat Sheth: Well I mean Rs.31 crs to Rs.38 crs is very much stabilization. It is only because your loan book has gone up. So if you take the average cost of borrowing it has broadly remained stable at 6%.

Mr. Kasera: Okay.

Mr. Bharat Sheth: and 76% of our loan book is on fixed rate of interest.

Mr. Kasera: Secondly, were there any charters which were renewed this quarter?

Mr. Bharat Sheth: Yes only one Aframax tanker which was broadly fixed at the same level as earlier.

Mr. Kasera: You have mentioned the rig which you have inchartered it is still open. What about the other rig schedule for delivery. Is that also open?

Mr. Bharat Sheth: Yes, the delivery of the second rig is during September or October 2009. So both remain open.

Mr. Kasera: Currently there are 5 assets in Greatship. Are any of the new vessels which will be coming in Greatship deployed?

Mr. Bharat Sheth: Yes one of the assets which we are taking delivery in FY2009, we have already committed for a duration of three years. The others, we have not yet concluded.

Mr. Kasera: Okay. And could you throw some light on Greatship's performance during the quarter?

Mr. Bharat Sheth: We are not giving consolidated results so it would not be appropriate for me to mention any numbers. From next year onwards we may go towards the consolidated reporting number for every quarter.

Mr. Kasera: How has been the trend in the first two quarters of the current calendar year in terms of demand supply scenario vis-à-vis what was initially expected when we started the year?

Mr. Bharat Sheth: Sure I think the demand supply has been much, much tighter than anyone could have expected a few months ago and as a consequence the average earnings both for tankers as well as dry bulks has been substantially higher than what anyone anticipated a few months ago. And that level of optimism now you know is what is currently driving the spot rates as well as asset values.

Mr. Kasera: But if could you say in terms of percentage net fleet addition?

Mr. Bharat Sheth: I think at the start of this year, people were expecting calendar 2008 to be very similar to calendar 2007 for average earnings. I am not talking about the volatility.

And if you take the average earnings for the calendar year that is January to date on dry bulk and tankers they are probably at an average running 50% ahead of what they work for calendar 2007.

Mr. Kasera: My question is regarding the expected fleet addition in terms of percentage?

Mr. Bharat Sheth: I think what has happened is that the tanker additions has been much, much lower than what was expected and that is because more vessels have gone into conversion projects. And that I think was anticipated, but you cannot time these

things, because these are decisions taken by individual ship owning companies and shipyards.

Mr. Kasera: Is there any idea as to approximately how much tonnage has got converted into either the bulkers or the other categories?

Mr. Bharat Sheth: Well, I think the main ships that have really gone into conversion have been VLCCs and Aframax. Something like 20 VLCCs from January of this year have moved out of the system. And against that 15 have come in. Similarly in Suezmax about 5 have gone out for conversion and 6 have come in.

So again there is almost a negligible fleet growth. In Aframax there is a little more fleet growth where 7 have gone out and 19 have come in.

Mr. Kasera: Do you see this trend continuing in the second half of the calendar year also?

Mr. Bharat Sheth: In the second half of the year, it will be a little lower number of vessels going out than in, in certain sectors. In other sectors there are more ships going out.

Mr. Kasera: The incentive for the tanker owners to convert into bulkers continues to remain higher because the rates continue to be good in terms of dry bulk. What is your view?

Mr. Bharat Sheth: But right now tanker rates are also very firm. So I am not sure what or how much of an incentive it is any longer.

Moderator: Thank you for your question. Our next question comes from Mr. Anish from ABN Amro.

Mr. Anish: Regarding the incharter days, they were flat Q-on-Q that is 1Q versus 4Q but the expenditure has fallen quite substantially. If you could give us some idea?

Mr. Bharat Sheth: Last year we had a contract of afreightment with one of the Indian refiners where we were just basically on back to back terms had taken in some tonnage. So the top-line and the bottom-line was effectively matching out. This year we do not have that contract and therefore the number of vessels that we had to take on back to back terms has become zero. We were still performing the contract Q42008. The contract finished in March 2008.

Mr. Anish: Okay, it is alright. And just to clarify the dry dock cost you have mentioned that Q2 and Q3 probably will be a little light compared to Q1?

Mr. Bharat Sheth: That is correct.

Mr. Anish: And just on the interest cost and somebody mentioned that interest rates in India are going up. I am assuming all your borrowing is dollar borrowing. What is the scenario on dollar interest rates I think LIBOR is coming down, you are seeing a reduction or you are seeing increase?

Mr. Bharat Sheth: LIBOR keeps fluctuating everyday, I think when I saw this morning it was 3.10 for 6 months, but the forward curve that the 5 year swap has gone up over the last few days, but again it fluctuates everyday on various announcements, but the 5 year swap rate is I think this morning was trading at about 4.40%.

Moderator: We have Mr. Shailesh Kumar from Kantilal Chaganlal Securities

Mr. Shailesh Kumar: I would like to know about the rate at which you have inchartered the rig.

Mr. Bharat Sheth: We are bound by a confidentiality agreement signed between us and the owner of the rig. So I am sorry that we would not be able to diverge that.

Mr. Bharat Sheth: Fine. My second question sir. What is your realization from the sale of the ships?

Mr. Bharat Sheth: The total realization?

Mr. Bharat Sheth: I have got the profit number which is Rs254 crs.

Mr. Shailesh Kumar: Sir, I want to know the total realization?

Mr. Bharat Sheth: Yeah, the total realization was Rs. 407 crs for 5 ships

Mr. Shailesh Kumar: My third question is regarding your staff strength, floating versus other staffs?

Mr. Bharat Sheth: In this office we have between 180 and 190.

Mr. Shailesh Kumar: Okay. And this is inclusive of the floating staff?

Mr. Bharat Sheth: No, that is only the shore staff. On each ship we have an average of about 25 people. So that about a 1000, some are permanently employed by us and some are on contract.

Mr. Shailesh Kumar: Could you let us know the capacity of PSVs and the AHTSVs that you are adding, because that is not there in your annual report?

Mr. Bharat Sheth: These are mid-sized PSVs and the anchor handlers are of 80 tonnes.

Mr. Shailesh Kumar: Fine, my last question sir. I would like to know the number of inchartered days in FY2009 and FY2010?

Mr. Bharat Sheth: We have said that the total number of incharter days for Q1F09 were 178 and I think that would broadly be the average for the rest of the year, unless we do a new transaction.

Mr. Shailesh Kumar: And sir, what was the average inchartered cost?

Mr. Bharat Sheth: That again due to the agreement that we have got with the owners we are not in a position to reveal that.

Mr. Shailesh Kumar: Okay fine. Thanks Mr. Sheth.

Moderator: Thank you for your question sir. Sir we have Mr. Anish.

Mr. Anish: My question is that 6% is your average cost of debt. Do you see that maintaining at these levels going forward or with this LIBOR fluctuation that you are talking about, you think 6% is going up?

Mr. Anish: But I would think in the last 6 months LIBOR has come off from may be 5.5 to 3.1 as you mentioned?

Mr. Bharat Sheth: Yes.

Mr. Anish: So, would not your average cost of debt have gone down and can you do an interest rate swap?

Mr. Bharat Sheth: No what happened is that last year itself, we had swapped out 76% of our loan portfolio to fixed interest rate as part of our overall risk management policy. And therefore on that 76% of the loan portfolio we have not got the benefit of interest rate fall. On the portfolio which is subject to our floating interest rate regime we get a resetting every 6 months. So 6 months later if the LIBOR is still at 3% then on some of those loans they will stand to gain.

Mr. Anish: Right. So broadly only 80% of our loan book is at 6%.

Mr. Bharat Sheth: Yes, that 80% will actually come down to 60% because of our fresh loan which we are taking for the 2 ship which are delivering later this year. They have not been fixed yet. So assuming that they remain floating then 60% of the loan portfolio at the end of this financial year will be fixed and 40% will be floating.

Mr. Anish: When you take those loans for these new ships, are you looking to keep them open or would you like to fix in your interest rate considering LIBOR as a 3.1?

Mr. Bharat Sheth: I think we will probably fix it and the reason I say that is because the premium that we need to pay to have the comfort of fixing it for 5 or 7 years. We think it is very marginal compared to the LIBOR.

Mr. Anish: Okay just one last question. Is that you mentioned on the dry dock cost and the days, would it be possible to quantify the revenue impact of this dry dock?

Mr. Bharat Sheth: Yes of course it is possible to quantify it. But I do not have it on me right now.

Moderator: Our next question comes from Mr. Deepak from Impetus Advisor. .

Mr. Deepak: My question relates to the CAPEX for US\$780 mn. I believe this is approximately half into the tankers and half into dry bulks, right?

Mr. Bharat Sheth: A little more into tanker.

Mr. Deepak: Okay are you also expecting slippages in the tanker segment as you are expecting bulk carriers in deliveries?

Mr. Bharat Sheth: We do not think so.

Mr. Deepak: Okay, now you accept that even accounting for slippages the deliveries are going to be huge in 2009 and 2011, right?

Mr. Bharat Sheth: There will be more than they were in 2008 for sure.

Mr. Deepak: Yeah, I mean according to the schedule that we have its going to be more than double of what it will be in 2008 or what it had been prevalent in the recent years. So I mean what is your rationale for going for such a CAPEX is given that the deliveries are going to be 2 to 3 times of what they have been in the recent years.

Mr. Bharat Sheth: Because the vessels that we have contracted are all at a substantial discount to what they are or what is available in the water today. And therefore we have already factored in a fairly large correction from today's value. That has already been factored into the pricing. So for example if you were to buy an asset today, say for a 100, you are able to build the same asset at probably 60 or 70 depending on the asset class for a forward delivery. So we have already factored in a significant correction.

Mr. Deepak: Alright. Okay and you have mentioned that in FY09 you will have one delivery which is committed for 3 years, which is that?

Mr. Bharat Sheth: That is in the oil & gas business. We have our mid-sized PSV which we have committed for 3 years, which is due for delivery in October 2008.

Moderator: Our next question comes from Mr. Madhukar Seth, Member Stock Exchange. Mr. Seth.

Mr. Madhukar Seth: Now you have given us enough facts and figures tell us something about the perception, your opinion the reason why Great Eastern is given so low PE by the market when you have an excellent 60 years track record and the best dividend payout and beating gold 21 times. They give you lower PE then even the transporters. You bring your container from New York to Mumbai and they give you 5 PE and those who unload that container and mount in a truck are given 15 PE in the name of logistics now how do you react with this?

Mr. Bharat Sheth: I react with tears in my eyes.

Mr. Madhukar Seth: Yeah but then please explain the reason.

Mr. Bharat Sheth: I do not have the reason and I think you should ask the so called experts who understand markets. I do not understand equity market I understand shipping market so anything you want to understand on shipping market, I am happy to answer, but I do not understand equity market.

Mr. Madhukar Seth: Well, at least the competition is not as high in shipping as they are in all these coolie business of transferring the containers and transport business. You have done well exceedingly well over 60 years. I wonder if you want to know the reason for these then you have to better know the fund managers who had parked the shares with Bear Sterns which buckled under. If you look at the portfolio based incident you will not find Great Eastern or Tata Steel or Reliance you will find stocks with doubtful qualities. So you have to take this head on because ultimately you bring up the company and we invest in the shares essentially to of course increase our wealth.

Mr. Bharat Sheth: Madhukarbai may I request that what we can do this discussion on a different occasion. My suggestion is lets focus right now on how the quarter has been and you know anything else that you might like to know on the shipping business.

Mr. Madhukar Seth: What do you think is the future say in the next 3 months the freight rates, bulk and tankers?

Mr. Bharat Sheth: We remain fairly positive.

Mr. Madhukar Seth: Fairly positive? Thank you sir.

Moderator: Our next question is coming from Mr. Bhavin Gandhi from B&K Securities.

Mr. Bhavin Gandhi: Sir could you share with us, the NAV number and what percentage of it will be relating to the fleet on water and what it be for the fleet on order?

Mr. Bharat Sheth: NAV as I mentioned earlier in the range of Rs.620-630 per share. I would say that almost 90% of it must be from the fleet which is in the water.

Mr. Bhavin Gandhi: Okay, we have recently placed orders for Suezmax tankers. We presume that these vessels are at a discount to the new building prices or will it be more or less in line with what numbers we have in new building market?

Mr. Bharat Sheth: No. I think the orders we have placed on the LR1 tankers as well as on the bulk carriers are much cheaper than what would be available today. The Suezmax tankers as you know, we have only announced on Friday. So those vessels, we will probably be broadly in line with where the markets are and I was telling one of the earlier person that I am told that the price at which we have done the Suezmax deal is also probably not repeatable.

Mr. Bhavin Gandhi: Sir we were seeing backwardation in the dry bulk segment and so is it fair to assume that there is a risk in the sense that the value in the dry bulk segment may come off in a years' time?

Mr. Bharat Sheth: I mean values can clearly come off. There is no reason why it can't. All I am saying is that every year the market has surprised us by being much stronger than was expected or anticipated at a start of the year. We have to see how far this credit crisis goes towards slowing down in big economies like China, which have a major appetite for raw materials. Now of course the demand for raw material has spread to other countries which are industrializing like India and parts of Africa and parts of South America. So all these is leading to a lot of increase in ton mile demand.

Mr. Bhavin Gandhi: Okay, fine sir. And sir can you give us a sense as to why we are seeing backwardation in the dry bulk and not so much in the tankers.

Mr. Bharat Sheth: The reason predominantly is because, not the spot market, but the forward rates on the dry bulk. The 2 year rates, the 3 year rates, and 1 year rates on the dry bulk sectors, are relatively higher compared to their asset values as opposed to tankers and therefore you have got a higher backwardation process.

Moderator: Thank you. Next in line we have Nikunj from Envision Capital

Mr. Nikunj: I wanted to know what is the rationale of allotting shares to promoters in Greatship. The 42 lakh warrants?

Mr. Bharat Sheth: Well I think, as you know that when the board of independent directors decided to look at esop's, they felt that, everybody on the management teams needed to be incentivized and as you know promoters cannot qualify for esop's under that scheme. So that is why while the esop's were granted at Rs.100 per share, the promoters were issued warrants at a premium to that and therefore the premium was then determined by some independent valuers and arrived at Rs.140 a share.

Mr. Nikunj: Because promoters are anyway benefiting by holding GE Shipping shares. So indirectly they are having control and they are also enjoying the benefits so.

Mr. Bharat Sheth: Well only on the monetization basis not otherwise.

Moderator: Thank you for your questions. Our next question comes from Mr. Sachin Kasera from PINC Research.

Mr. Kasera: Regarding the contracts, are any of them coming up for renewal in the quarter ended September?

Mr. Bharat Sheth: You mean on the spot market?...

Mr. Kasera: Sir I am talking of the long term charter contracts. I am not talking of spot.

Mr. Bharat Sheth: At the end of September no, I think some of the bulk carriers come at the end of December, but not in September, no.

Mr. Kasera: Neither on tanker, neither on bulks?

Mr. Bharat Sheth: Neither on tanker, neither on bulks.

Mr. Kasera: Second question was regarding the dry bulk market especially India's appetite in terms of coal imports. What is the sense that you are getting from some of the key clients from who you have been talking to?

Mr. Bharat Sheth: I think the coal imports will clearly be higher in India over the next 3 to 5 years, both energy coal as well as coking coal. I think the same is true in other parts of world as well particularly so in economies where in absolute terms the consumption is higher like in China. I was just reading an article over the weekend which said that there is tremendous power shortages in vast tracks of China, principally

because as you know almost 70% of the electricity generation comes from coal. And there is a tremendous shortage of coal and the smaller coal mines are all being shutdown, because of various accidents that has been taking place. So there is a shortage of coal globally and that is the reason why we are seeing coal prices where they are.

Mr. Kasera: Okay, but my question was more specifically to India?

Mr. Bharat Sheth: I think in India as I answered, I think it will continue to grow.

Mr. Kasera: But any idea in terms of whether it would be inline with what is anticipated, because everybody is anticipating a surge but could it be that the actual imports could be significantly higher then what everybody is anticipating?

Mr. Bharat Sheth: I do not have an answer to that, whether it will be higher than what, because when you say everybody anticipating different people are anticipating different numbers. So I do not know, which is the base number that you are referring to because different people have got different forecasts.

Mr. Kasera: Alright. Are you getting any inquiries from any of the prospective clients to tie up say you know long-term contract especially from the power companies for say a 5 year or a 7 year type of long term contracts?

Mr. Bharat Sheth: We have been approached, but we are not interested currently in that business.

Mr. Kasera: Any specific reasons? Is it because we expect these spot markets appears to be significantly better than these long-term contract sir?

Mr. Bharat Sheth: Not that we know which will eventually turn out better, it is impossible to tell, but we are not very keen to get into a business where our upside is fixed and where we have got all the cost inputs open to us.

Mr. Kasera: So basically on the bulk side you would not be very keen to enter into long-term contracts...?

Mr. Bharat Sheth: Well neither on tankers nor on bulkers is our current line of thinking.

Mr. Kasera: So at best it would be 1 to 1.5 years contract is what you could only look in terms on the charter market?

Mr. Bharat Sheth: Well we might look at longer than one year or one and half years, but really not for 5, or 7 or 10 years.

Moderator: Our next question comes from Mr. Pankaj an investor. Mr. Pankaj.

Mr. Pankaj: I just wanted to know what is your view on the offshore rig markets?

Mr. Bharat Sheth: I think looking at the fixtures that have been done recently i.e. over the last 2 months, the markets remain very, very firm.

Mr. Pankaj: Okay because I mean ONGC have not been really prepared to pay more than 150 to 160 thousand dollars on a 3 or a 5 year tenure would that sort of rate?

Mr. Bharat Sheth: It depends what is your expected rate of return and each investor will approach differently and it depends on what...

Mr. Pankaj: At Great Eastern what would your view be?

Mr. Bharat Sheth: This question really is more for Greatship India, because they will determine what their marketing strategy is. And I think it will depend on what else they are seeing in other parts of the world at the time when they are bidding for a particular business.

Mr. Pankaj: And another question is on bulk carriers. Are you all looking at buying any capesize vessels on the spot market today?

Mr. Bharat Sheth: Not today.

Mr. Pankaj: Okay. Right thanks a lot.

Moderator: Thank you Mr. Pankaj. Next in line we have Mr. Abhishek from Religare Securities..

Mr. Abhishek: I just have one routine question which is, if you could give me the breakup for the operating days in the dry bulk and tanker for the quarter?

Mr. Bharat Sheth: For the bulk carriers, the total revenue days were 1200, and for tankers 2480.

Mr. Abhishek: And the day rates enjoyed sir?

Mr. Bharat Sheth: For crude carriers is to \$40,700 a day, and for product carriers, it was \$22,000 a day and on the dry bulk to a \$50,600 a day.

Mr. Abhishek: The NAV mentioned would be including both the standalone business and the subsidiary?

Mr. Bharat Sheth: Standalone with the subsidiaries being valued at the equity investments only.

Mr. Abhishek: All right . And for the net debt position?

Mr. Bharat Sheth: The net debt position is approximately Rs.800 crs.

Moderator: Thank you Mr. Abhishek. Next question comes from Mr. Mehernosh from HDFC Security.

Mr. Mehernosh: You have mentioned that the average TCY for this quarter in crude carrier was around \$40,000 a day.,for dry bulks you have mentioned as \$50,000, so it was substantially higher than the last corresponding quarter.

Now should I assume that this will remain stable for the rest of the year and can we say that your earnings will be around average earnings in this range itself?

Mr. Bharat Sheth: I think it is difficult to tell, because of the huge volatility in our business. But I think that for the Q2FY09 the earnings for dry bulks will be probably much of a muchness. But it should be higher for crude and products.

Mr. Mehernosh: Okay, because in the last con call which I attended it was mentioned that the total revenue days will decrease.

Mr. Bharat Sheth: That is correct. The revenue days have decreased, but the reason why the operating profits have gone up is because for each of those revenue days, we have earned higher numbers. It will be more from the pricing as compared to volume.

Mr. Mehernosh: But will the declining the revenue days offset the increase in the freight rates.

Mr. Bharat Sheth: We hope not.

Mr. Mehernosh: What I mean is that this year will there be any growth, because shipping is the main business as of now and your offshore business will earn large revenues after 2010. So is it that that this year there would not be any substantial growth in your revenues in your freight and charter hire income?

Mr. Bharat Sheth: No we have seen in quarter one that inspite of low revenue days, there has been a growth in the freight and charter hire income. So if the strength of this market continues over the next three quarters, then overall revenues should be higher than FY2008.

Mr. Mehernosh: Basically it will depend upon the movement of the freight rates.

Mr. Bharat Sheth: That is correct.

Moderator: Thank you Mr. Mehernosh. Our next question comes from Mr. Gaurav from Gupta Equities.

Mr. Gaurav: Sir my question is that do we hedge our bunker cost?

Mr. Bharat Sheth: We hedge some of our bunkers. In Q109 we had about 23% hedge. For Q2FY09 we have hedged about 45%.

Mr. Gaurav: And sir regarding the outlook for offshore business is concerned you have said that in 2009, and 2010 the supply of rig will be increased that will put pressure on day rates sir, any comments on that?

Mr. Bharat Sheth: We do not necessarily subscribe to that because there are also a number of rigs that are getting quite old and we think that as more modern rigs come into the market place, some of the old rigs will find it difficult to reprice, because more and more customers will then prefer the more modern assets. So I think that could be true of some of the older assets but not of the newer assets.

Mr. Gaurav: Out of the 5 vessels which we have sold were they on spot market or on long-term charter?

Mr. Bharat Sheth: 2 were on 1 year charter. No the dry bulk vessel were both on spot market. And the product tankers was on up to one year. One was on sort of semi spot.

Mr. Gaurav: Thank you sir. That is all from my side.

Moderator: Thank you for your question Mr. Gaurav. Next in queue we have Ms. Sneha Kothari.

Ms. Sneha Kothari: I just want to know how the CAPEX funding would be done of \$ 104 mn for FY2009.

Mr. Bharat Sheth: Yes approximately 30% will be through equity and 70% will be debt on our entire capital expenditure program.

Ms. Sneha Kothari: Okay, on the full capex of US\$780mn?

Mr. Bharat Sheth: 30% of that roughly will be equity i.e. internal accruals and 70% will be debt.

Moderator: Thank you Ms. Kothari. We have Mr. Arun from Capital Market. Mr. Arun.

Mr Arun: Could you please throw some light on the ships that will be dry docked in the rest of the year?

Mr. Bharat Sheth: We have about 22 ships due for layoff in FY2009 and of that 6 have been completed and there are other 16 ships. In Q2 we will do 4 more so that will make it 10. In Q3 we will do another 4. And the rest will be done in Q4

Mr Arun: Okay. What should be the approximate cost towards that layoff and dry docking?

Mr. Bharat Sheth: It is impossible to have a precise number, but approximately the total dry dock and layoff cost will be about Rs.120 crs for the year.

Moderator: Thank you. Next in queue we have Mr. Abhishek from Religare Security.

Mr. Abhishek: Could you share the acquisition cost for the 2 Suezmax tankers?

Mr. Bharat Sheth: We can't give you give the precise number because of confidential agreement with the shipyard.

Moderator: Thank you Mr. Abhishek. Participants who wish to ask any further questions may please press * and 1 on the pushbutton phone now. As there are no more questions I would now like to handover the conference to Ms. Anjali Kumar.

Anjali Kumar: Ladies and gentleman thank you very much for participating in this call. And with this we conclude today's session. The transcript of this conference call will be uploaded on our website for your future reference in the next couple of days. We will be also of course glad to answer any other questions that you may have. So please feel free to just send us an email or call us. Thank you once again all of you for joining.