

The Great Eastern Shipping Co. Ltd.
Q2FY13 Earnings Conference Call
(November 5, 2012)

Moderator: Good Evening ladies and gentlemen. Thank you for standing by. Welcome to GE Shipping's Earnings Call on declaration of its financial results for the quarter ended September 30th 2012. I will now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communications at GE Shipping to start the proceedings.

Anjali Kumar: Good afternoon everybody. Thank you for joining us on our Q2FY13 conference call. Since the results have come out on Friday, we presume that most of you had time to go through it already. Hence, we can directly start the Q&A session with our Group CFO Mr. G. Shivakumar.

Moderator: We have our first question from Mr. Bhavin Gandhi of B&K Securities.

Bhavin Gandhi: Can you help us understand the sharp drop in the operating days that we saw in the shipping segment. Were we idling our ships?

G. Shivakumar: We did not idle our ships because of commercial reasons. One reason for drop in the days was due to more offhire days on account of dry docks. Second reason is, when you are running a large fleet on the spot market you typically get these lumpy events, which are on account of incomplete voyage days. We account for revenues on discharge of the cargo when it is on the voyage. So for example, the ship is loaded for a spot voyage on 10th September & discharges the cargo on 5th October. Then in this case, the days in September are not calculated as revenue days because the actual revenues are counted in the next quarter.

Bhavin Gandhi: Can you help us understand the forex transactions. In the notes you have mentioned Rs140 crs of non cash expense and in the P&L it is Rs 82 crs on the consolidated basis.

G. Shivakumar: Rs 140 crs is only the unrealized loss on revaluation. The number which comes in to profit and loss account includes the crystallized as well as unrealized gain/loss on revaluation.

The amount of Rs140 crs is not permanent as it will change due to dollar rupee rate movement till it crystallizes at the time of settlement of liabilities/realization of assets.

Bhavin Gandhi: Did we have any gain on crystallized FOREX because this P&L item was lower than Rs 140 crs.

G. Shivakumar: That's right, part of the unrealized gain in the first quarter is realized in the second quarter on settlement of liabilities/realization of assets. Accordingly, part of the unrealized gain in the first quarter is now transferred to realized gain account in the second quarter.

Bhavin Gandhi: If you can also explain the interest portion that we have reversed?

G. Shivakumar: Till end of Q1 FY13, the loss on forex loan principal amount was partly loaded on the interest expense as required by the Accounting standard 16. Now as per a

notification from the ministry of Corporate Affairs the said loss would not be loaded on the interest expense and would be loaded on the asset cost. Accordingly, the extra charge due to above in Q1 is reversed in Q2.

Bhavin Gandhi: Can you could share the consolidated and stand alone NAV for the quarter?

G. Shivakumar: The standalone NAV at end of Q2FY13 is Rs 245 down from Rs 256 in Q1FY13. The consolidated is down from Rs 437 in Q1FY13 to Rs 407 in Q2FY13. On the consolidated basis, the big impact is from the currency. In case of standalone it is not a big difference on currency because, dollar assets and dollar liabilities are more or less equally matched.

Moderator: We have next question from Mr. Vikram from Antique.

Vikram: Why have we reduced the useful life for our offshore vessels?

G. Shivakumar: This relates to only two second hand purchased vessels which are currently in our fleet. All other ships are new building ships and so depreciated over 20 year period. Out of these two second hand vessels, one was 7 years old and other was a 2 year old and we have taken 20 years remaining life on them i.e. running up to 27 years of age and other running up to 22 years of age.

We believe that it's only a question of time before we see the marketability of the old assets going down i.e. beyond the age of 20 and therefore we believe that its more prudent to depreciate them down to zero at the age of 20.

Vikram: Why are the revenue days in shipping down over the year?

G. Shivakumar: Between Q2FY12 and Q2FY13 we sold about 5 ships and hence a drop in revenue days. Q2FY13 had 2509 revenue days, down from 3026 days in Q2FY12. Between Q1FY13 and Q2FY13 we sold 3 ships and took delivery of one ship. In Q1FY13 we had 2918 shipping revenue days.

Vikram: The TCYs in product segment have seen a significant decline of about 22% yoy? What is the main reason behind this fall?

G. Shivakumar: Couple of our product tankers, which were fixed in 2008 at a higher rate, came off the long term time charters. The same are now operating at the prevailing charter rates which are lower than the earlier rate sand that is the reason for lower TCYs yoy.

Vikram: How many ships were dry docked in Q2FY13?

G. Shivakumar: We had 3 ships dry docked for 57 days in Q2FY13.

Moderator: We have next question from Mr. Bhatt, an individual Investor.

Bhatt: In the last quarter you had mentioned that assets prices were reaching the bottom. Have you seen than happening in the shipping segment?

G. Shivakumar: We are currently very close to the bottom. But having said that we have seen a drop in assets prices varying across 6% to 12% in different asset classes between Q1FY13 & Q2FY13. The Company's asset values dropped about 9% which is reflected in our NAV. If we compare the yoy values, they have declined by about one third. Prices are still coming down especially in the dry bulk segment.

Bhatt: How has scrapping picked up?

G. Shivakumar: Scrapping has picked up in a very large way especially in the dry bulk segment. We have already seen around 28mn dwt getting scrapped in this segment. But with huge new building deliveries expected to hit the market in next 2 years, the scrapping number requires to accelerate from here to have demand supply equilibrium. If the charter rates remain low for a prolonged period, then we can see pickup in the scrapping across all segments.

Moderator: The next question is from Mr. Chetan Kapoor from IDBI Capital.

Chetan Kapoor: As a result of Sandy hurricane, we have seen a substantial jump in the product tanker rates? Do you think these rates are sustainable?

Anjali Kumar: We think it is a short term factor. Due to shutdown of their refineries, US needed large quantities of refined products at their eastern coast and that's why they made several relaxations on their ports and hence we saw a little bit of extra movement on that side. But we don't expect this to be long term impact.

Chetan Kapoor: Have we seen a yoy improvement in the revenue booking in the offshore segment?

G. Shivakumar: About four offshore assets have been added to the fleet in the last year. This has resulted in an increase in the operating days. Apart from that, charter rates and utilizations have also improved over the year. We had about 1950 operating days in Q2FY13 as compared to 1750 days in Q2FY12.

Moderator: The next question is from Mr. Ashish Jain from Morgan Stanley.

Ashish Jain: The standalone NAV has not really gone down, except for the decline in asset values. But why has the consolidated NAV seen a decline?

G. Shivakumar: On the shipping assets, we saw about 9% drop in the fleet value. The cash balance has cushioned it to a large extent, and also, large part of the value of cash is higher than the market value of the fleet. The value of dollar assets is more or less matched with the value of the dollar liabilities. In offshore the value of the dollar asset which is the fleet is much higher than the value of the dollar liabilities. Therefore the currency impact is much higher in offshore.

Ashish Jain: Why have the margins in the offshore business gone up on the sequential basis?

G. Shivakumar: We had one rig which was between contracts in Q1FY13 and hence was not operational for some 20 odd days. Therefore the margins during that quarter were low. The margins which you are seeing in Q2FY13 are more realistic.

Ashish Jain: Are we still looking for more price correction or is it more time correction from here on the asset pricing cycle?

G. Shivakumar: It is combination of both price and time correction. Probably at this point, the time correction is becoming more important because we are very close to the bottom in terms of the actual dollar values of the assets. We need to see signals of some recovery, before we have confidence to go out and commit in the big way.

Ashish Jain: So what is strategy going forward? Looking at the current situation, will you be allocating capital toward offshore or shipping segment?

G. Shivakumar: From a general investment perspective we are indifferent between expanding in shipping or in offshore. Just because we are sitting on a big pile of cash from last couple of years, we won't be doing any hasty acquisitions. Depending on the market conditions, we will plan our next round of acquisitions. So we will holding the cash and be wise enough to deploy it when the time is right.

Moderator: Your next question from Romil Jain from Quantum.

Romil Jain: How much is the YTD scrapping as a percentage to the total order book that we have on the tanker as well as dry bulk side?

G. Shivakumar: As a percentage of current fleet, its about 2.5% on crude tankers, about 1.5% on product tankers and about 4.5% on dry bulk.

Romil Jain: How have the charter rates across offshore segment moved over the year?

G. Shivakumar: We have seen around 10% or 15% increase in the earnings. But more than that it is utilization which has improved. We believe that the charter rates will remain healthy going forward.

Moderator: Your next question from Mr. Vikram from Antique.

Vikram: What is the breakup for spot and long term contracts for shipping business in Q2FY13?

G. Shivakumar: In Q2FY13, on a full fleet basis we had 53% of our operating days on spot. In tankers its about 42% and in dry bulk it was around 85% on spot.

Vikram Suryavanshi: Are we witnessing any demand side improvement?

G. Shivakumar: Demand for commodities is quite strong. In dry bulk we are expecting Chinese iron-ore imports to go up by 9% this year. In the tanker segment, the demand has been a little weak; the demand growth for this year is probably less than 1 million barrels per day which is very poor for tanker demand. Sluggish oil demand from US & European countries coupled with slowdown in the Chinese oil imports has resulted in demand contraction.

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

Bhavin Gandhi: What has been the Q2FY13 asset utilization levels in the offshore segment ?

Anjali Kumar: The utilization levels for this quarter have been extremely good. It has been between 90% and 100% for almost all the segments.

Bhavin Gandhi: What is the scheduled delivery date of the new Jack-up rig?

G. Shivakumar: The new rig will be joining the fleet in mid January 2013.

Bhavin Gandhi: How are things panning out on the new fuel efficient ships? Has any of this ship being delivered?

G. Shivakumar: One of the US listed owners has put out the performance of one their fuel efficient eco-ships versus their normal ships and they claim that there is a reduction of some 8-9 tons per day in the consumption. So that's the kind of feedback that has come from one of the ship operator. If these numbers are correct then we are talking about \$3000 per day savings.

Moderator: We have next question from Mr. Romil Jain from Quantum.

Romil Jain: Wanted your views on slippages and cancellation that have taken place so far?

G. Shivakumar: It is very difficult to find any confirm empirical data on this. But from the available data, we have seen around 30% to 40% slippages in the dry bulk and probably around 20% slippages in the tanker deliveries.

Romil Jain: What is the age profile of global offshore assets?

G. Shivakumar: About 50% are more than 25 years of age across the offshore fleet.

Romil Jain: With technical qualifications getting stringent, do you see that older vessels will find hard to get contracts?

Anjali Kumar: Globally we have seen this happen where charterers have been demanding younger assets which are far more technically advanced than the older ones. Unfortunately in India it is not happening yet. We are hearing the talk that ONGC now has brought down the age limit to 27 years. Other operators who are operating in the Indian waters have also put in the age restriction clause.

Moderator: Our next question is from Mr. Abhishek Ghosh from B&K Securities.

Abhishek Ghosh: What has subsea business contributed in terms of profitability for the current quarter?

G. Shivakumar: The subsea asset is no longer working now. We sold that asset and delivered it to the buyers in August. So we currently don't have an asset working in the sub-sea business

Anjali Kumar: Thank you everybody for being with us on the call. We will be uploading the transcript of the call on the website in a couple of days. If you have any other questions, you may please feel free to contact us any time.