



GE Shipping
Q4 FY 2006-07/Earnings Conference Call
(May 4, 2007)

Moderator: Good afternoon ladies and gentlemen.

Welcome to the GE shipping's earnings call on declaration of its audited financial results for the fourth quarter and financial year FY2006-07 ended on March 31, 2007.

I would now like to request Mr. Balan Wasudeo, Chief Financial Officer, GE Shipping Company Limited, to give us a brief financial snapshot on the performance. Please go ahead sir.

Balan Wasudeo: Thank you. Good afternoon friends.

It gives me great pleasure to make this presentation on the results for the quarter and year ended March 2007. It has been a very satisfying year, since you remember we started the year on a somewhat weaker note.

The Q1 results showed a drop of almost 22% in net profits as compared to the corresponding first of FY2005-06. Going into the second and third quarters, no doubt, we ensured improved performance because of better freight rates and better fixation, the benefits of which were eroded, because there was a drop in capacity during the first 3 quarters.

You will recollect the loss of capacity from 2.92 million DWT to 2.80 million DWT the end of the third quarter. Therefore for 9 months we were still down as compared to the previous year's 9 months. The fourth quarter's performance has made a complete sea change for the year's performance and it has lifted both the year and the quarter results tremendously. Basically, two major parameters brought about this turnaround, one is the increase in capacity in the fourth quarter. It went up from 2.80 million DWT to 3.26 million DWT as of March 31, 2007.

As a result in the quarter, the revenue days improved by 8% from 3621 days to 3925 days. Because of these two major improvements, the quarter net profits went up by about 31% from Rs.183 Crores to Rs. 241 Crores and it also lifted up the entire year's profit to a positive growth number of 5%.



Other operational parameters efficiencies of lower cost because of dry docks all added their share. During the quarter as can be seen in the results, because of that our operating profit improved by 13% in the quarter from Rs. 292 crores to Rs. 329 crores.

If you consider profit excluding gain on sale of ship, I am referring to line 5B friends, a similar growth rate of 13% can be seen year on year. As a result, the operating profit margins have also increased smartly. It is as high as 54% for the current quarter and 52% for the full year.

In our industry, with, more than third of the fleet in the spot market an operating margin of anything above 50% is considered according to us very good.

Interest costs have also increased, because of increase in tonnage capacity. The loans increased by almost Rs. 400 crores during the quarter. It went from about Rs.1800 crores to Rs. 2200 crores and that brought up the interest cost. On the other hand there are some reduction in depreciation as many of the vessels in our fleet have reached full depreciation value and no more provision is to be made and therefore overall the profit before tax improved from Rs. 192 crores to Rs. 248 crores. Treasury income has been stronger because of better interest rates. The quarter four's net profit increased from Rs. 183 crores to Rs. 241 crores. As a result, the return on capital employed improved from about 20% in the last quarter to about 22% in this quarter.

With regard to consolidated numbers our subsidiaries have started adding materially to the performance of the Company. The subsidiaries have added about 8% to the top line and about 3% to the bottom line and the improvement in the earnings per share because of subsidiaries is as high as almost Rs. 2:00 per share as compared to Rs. 1 per share in the previous year. With that ladies and gentlemen, I bring my presentation to an end. I now hand over the mike to Mr. Rajat Dutta.

Rajat Dutta: Ladies and gentleman, we will now commence the Q & A session, kindly restricts all questions to only the quarter 4 and annual financial results of FY2006-07.

Moderator: We have our first question from Nikhil Vohra, from SSKI.

Nikhil: You just mentioned that we have added close to half a million DWT during the last quarter. What is the plan going forward over the next couple of years and during this capacity addition, net of asset sales?

Bharat: You see this is a dynamic process, we are continuously on the look out for opportunities, both to buy ships as well as to sell ships, but if you take our total revenue



base for FY2006-07, which was approximately 14,900 revenue days, we at this moment, basis whatever is committed, we expect FY2007-08 to have revenue days of 16,700 and that would be an improvement of about 12%.

Nikhil: So you would suggest that it is more pertaining to look at the revenue base right now rather than incremental capacity addition.

Bharat: Yes. I mean at the end of the day it depends where you are adding capacity.

Nikhil: We will possibly have close to around Rs. 1100-1200 crores of free cash or rather at the end of the current. So, is there any plan for deployment of the cash?

Bharat: Yes. As you know, we already have some committed expansion. We have got 5 new building product tankers, which are used for delivery at various stages. We have just taken delivery of 8 ships in the last 2-1/2 months. So, we have been fairly active, I would say during the last quarter. The five ships, some of them will come in FY2007-08, and some will come in FY2008-09 and of course in addition to this, we are supporting as you know our wholly subsidiary in the oil and gas business, which is Greatship (India) Limited and some of their assets will also be delivered during FY2007-08 and FY2008-09 and therefore going forward, our subsidiaries will start giving bigger and a bigger EPS kick us.

Nikhil: Is it possible to just get a broad sense of what the balance sheet size of Greatship can look like in the next couple of years, because I presume there is just only asset accumulation in that business?

Bharat: At the moment based on what is committed, the balance sheet size of Greatship (India) Limited will be USD 380 million. This would be at end of Phase I.

We are now looking at opportunities for Phase II, which is going to be have a gerater focus on services required for deep water exploration.

Moderator: Next in line, we have a question from Ms. Shilpa from Kotak.

Shilpa: My first question is pertaining to the full year financial numbers. Looking at the consolidated numbers I am seeing there is a marked reduction in repairs and maintenance expenses. Your other expenses have come down and your staff cost has increased, but given the kind of wage inflation currently prevailing, it does look little bit benign to us and finally the depreciation cost has also declined despite the fact that there has been substantial tonnage addition especially in the fourth quarter. So, could you just tell us what is happening in with respect to these individual cost items?

Bharat: For the dry docking and maintenance cost, that's the function of apart from repairs, statutory surveys. It just so happened that during FY 2006-07, we had fewer dry docking as compared to FY2005-06.

We had 15 vessels drydocked in FY2005-06. And in FY2006-07, we had 8 vessel dry docked and going into FY 2007-08, we are going to have 17 vessels that are going to be dry docked.

As far as staff cost is concerned, it is both the function of people in the office as well as our floating personnel. Last year, there was an increase in our ashore and on board the ship. On our floating personnel, we are obviously bench marking salaries more and more to international standards, because there clearly is a migration of Indian officers from Indian flag tonnage to foreign flag tonnage. So, we are trying to ensure that they sail with us.

A lot of the addition to the tonnage came in quarter 4 and therefore the depreciation charge is not fully reflective of the entire capacity addition. In addition if you see from the tonnage we have added, we have also sold 3 ships during the course of the year. So, obviously there was a reduction on the ships that we sold and the bulk of the ship that we added came in quarter four. Our depreciation charge in FY2007-08, based on whatever is committed will be higher than the depreciation charge in FY2006-07.

Shilpa: Can you give me the gross block, net block, gross deck, and the net debt numbers please?

Bharat: As far as the debt is concerned it was about Rs. 2100 crores. As at 31st March, the gross block was Rs. 5360 crores while, the net block was Rs. 3630 crores.

Moderator: We have a next question from Mr. Parag Gupta, from Morgan Stanley.

Parag: Yeah. Good evening Sir. I just had a couple of questions, firstly can you just tell us what is the impact of rupee appreciation on your overall business earnings and how do you see that panning out in the future and secondly if you can just give us some details on you net asset value?

Bharat: As far as the rupee is concerned, every 50 paisa change in the rupee has an approximate Rs. 7 crores P&L impact and Rs. 3 crores cash flow impact. Net asset value for the year ended 31st March 2007, is about Rs. 405 a share.



Parag: You were talking about the number of vessels that were dry docked in fiscal 2005-06 and fiscal 2006-07. Could you just give those numbers again please?

Bharat: Sure. In FY2006-07, we dry docked 8 vessels and in FY2005-06, we dry docked 15 vessels, in FY 2007-08 we are expecting 17 vessels to go for dry dock.

Moderator: We have a question from Nikhil Vohra from SSKI.

Nikhil: What is your sense of the freight markets?

Bharat: Let me first address dry bulk, because everybody is talking about that. The freight rates are extremely firm as reflected in the forward curve, which is both a reflection of how people today see the market. You can even see it through what the FFA trades are doing, which is forward what customers are paying now for 2 years and 3 years. There is an overall positive sentiment.

On tankers, as you know, business is very volatile and it is determined by many non macro factors like weather delays, winter, geopolitical situation in Venezuela, West Africa, Iran, etc., but, if you take the asset values, no body is expecting significant downward of correction. You might get, you know on average earnings plus and 5-10%, but I do not think at this stage, we can talk beyond a 5%-10% band.

Nikhil: Does that effectively mean that freight rates also are very unlikely to soften over the next year or so?

Bharat: Yes. I think if you take the average earnings for FY2006-07, the current mood of the market is to suggest that for FY2007-08 it will broadly be in line with what they were in FY2006-07. But, remember in FY2006-07 we had winter that really disappointed everyone also, the business is particularly driven by a lot of factors which are extraneous in nature. To forecast weather delays, geopolitical risks etc, is very very difficult and eventually everything drives the sentiments. So, as you know markets tends to react in extreme directions when going up as well as while coming down.

For example regarding US imports of oil with Venezuela making a lot of noise, you know you are going to get a very strong tend from the market. Or if you get weather delays, you can get very strong trend of the market. About 3 weeks ago there was strike in some ports in France and the tanker business around that area, saw rates go up about 80% in 3 working days.



What it broadly indicates is really the message that the supply demand is still pretty tightly balanced.

Nikhil: Okay. And right now tanker would attribute for what, over 80% of our revenues?

Bharat: Tankers would be around 80% of earnings. I think going forward in FY 2007-08 with the dry bulk earnings growing on quite significantly, I suspect it would be somewhere between 75% to 77%.

Nikhil: Thanks for this. And your NAV?

Bharat: Rs. 405 per share as at 31st March 2007.

Moderator: We move on to our next participant. Ms. Manjubhashini from Sundaram BNP.

Manjubhashini: Just wanted to know the tonnage additions that happened in FY2007-08 as compared to FY2006-07.

Bharat: I will give it to you in terms of revenue days, which I think is a little more meaningful. We had a total of 15,327 revenue days in FY 2005-06 and in FY2006-07 it was 14,922 a drop of 3%.

For FY2007-08 on what we have committed at the moment, it will be 16,700 revenue days. So, there will be about a 12% increase in revenue days.

Moderator: We have a next question from Mr. Shiladitya Dasgupta from ICICI Prudential Life Insurance.

Dasgupta: Sir, I just wanted to get a sense of the GE Shipping standalone PAT is Rs. 883 Crores and the consolidated PAT is Rs. 912 Crores. So, where is this difference coming from? With subsidiaries and how much is attributed to each subsidiary?

Bharat: I would say the bulk, more than 90% of that is accounted by our Sharjah subsidiary and the balance is accounted for our oil and gas subsidiary where for FY2007, we only had one asset in the water, but going forward in Greatship (India) Limited, the profit will start increasing exponentially.



The bulk of this difference is from our operating subsidiary in Sharjah. Where, as you know we have vessels, which we have taken to operate. We have got some tankers there and now we are gradually inchartering some bulk ships there as well.

Dasgupta: Correct. This Oil and gas subsidiary with one asset in water, was it profitable at a PAT level?

Bharat: At the PAT level has produced a maiden profit of just about Rs. 2 crores.

Dasgupta: Is the crude tanker and product carrier, which are covered to the extent of 65% and 54%, what rates they have been locked in? Are these rates similar to the average realizations you have seen in FY2006-07?

Bharat: Yes, in some assets Yes, and in some assets No. On the whole, I would say that if you take coverage in FY2007-08, we have got about 65% covered in crude and 64% in product. And if you take some of the product tankers, I would say a bulk of them, have got covered at a rate which were the equivalent of FY2006-07. Some have got covered at a marginally lower rate.

As far as the crude is concerned, they have got covered in majority of the cases, at the equivalent of FY2006-07 and in a couple of cases they have got covered marginally more than FY2006-07.

Moderator: We have our next question from Mr. Parag Gupta from Morgan Stanley.

Parag: If you can give us some idea on whatever capacities you will be adding going forward apart from the five product tankers that you have talked about. Which segment are you looking at more closely. Would it be more in the bulk segment product tanker segment or are you just looking at each segment separately?

Bharat: I think we are looking at each segment on its own merits. We are you know looking both at the dry bulk segment as well as the tanker segment. Although, clearly, we would ideally have liked to focus a lot more at the moment on the dry bulk segment, to ease the risk on wet segment, but having said that, we will build wherever we see there is an opportunity, you know relative opportunity. So, it is difficult to say, how much will necessarily go into dry bulk and how much will go into tankers.

Parag: Do you have any target mix for your, on revenue on how much you want each segment to contribute.



Bharat: Well revenue is not in our hands, because we are in such volatile market, it was better defined I think in terms of capital employed and I think going forward, from about 75% in tankers and 25% in dry bulks, we might want to see somewhere between 65% to 70% tankers and 35%-30% in drybulk.

Parag: And what would be your committed CAPEX on shipping and for offshore.

Bharat: In the offshore subsidiary he committed CAPEX is USD 331 million and in shipping the committed CAPEX is USD 239 million.

Moderator: We have our next question from Mr. Anish Desai from ABN Amro.

Anish: Basically this 3925 number of days is for Q4, how much of that was inchartered?

Bharat: It is 3925 for the quarter four or which it is 321 days were inchartered. This is in GES. Currently, we have got many ships inchartered now in our Sharjah subsidiary. We will add approximately 2000 odd days in our subsidiary.

Anish: Okay. Could you give us the number of vessels in the Sharjah subsidiary?

Bharat: It is between 8 and 9. I would say we have got 3 dry bulk vessels in our Sharjah subsidiary and 2 more in GES making a total of 5 and then tankers, we would have 4 or 5.

Anish: And, you are just completely opportunistic or are there some longer-term goals of number of DWT to be inchartered in the new subsidiary.

Bharat: Going forward, we believe that one way to grow the revenue base is through a combination of ownership and operating ships and I think, going forward, that is what we will do. It is business that we would like to build on gradually.

Anish: So, are these ships taken a long-term charter?

Bharat: They have been taken for various durations ranging from 1 year up to 5 years.

Anish: Okay. And is there a target for operating days.

Bharat: We do not have a target, what we have is trying to call out deals that we believe will be profitable over the duration of the charter.



Anish: And you mentioned about drydocking vessels in FY2007-08 is going to be roughly 17. Just what was the approximate cost of the drydock for a vessel?

Bharat: It varies between vessels. It difficult to say but if you wants some numbers. The 8 vessels that we drydock in FY2006-07 cost us about Rs. 16 crores. So, you could double that in case of 17 vessels.

Anish: And the other point is you mentioned that on tankers you believe that the market is more or less bottomed but also mentioned in your press release that there is substantial supply. So what gives the confidence in the market?

Bharat: First of all ignore the short-term volatility. We had in a week seen our market move up and down. So a Friday may not necessarily be the same on Monday vise-a-versa. I think the sensible way to look at this is to take year's average and not look at weekly, monthly or daily rates and what we are saying is that with the supply that is coming in it is our current belief looking at the oil demand which all agencies for the first time are pretty unanimous is that the oil demand for calendar 2007 is going to be higher than the oil demand for calendar 2006.

Combined this with the fact that there is bigger slow down across OECD on all categories of oil products as well as in crude oil itself. So, on one hand you have got stronger demand compared to the previous year on the other hand you have got relative slow down in inventories and that leads us to believe that in spite of the extra supply that is coming in over the next 12 months, on an average we think that the FY2007-08 crude oil tanker earnings should be within a very narrow band of FY2006-07. Whether it will be higher or lower at this stage it is difficult to say.

Moderator: Next in line, we have a question from Mr. Nitesh Jain from Enam Securities

Nitesh: Can you give me the breakdown of revenue in terms of tankers and drybulk carriers for FY 2006-07?

Bharat: Broadly the tanker represents approximately 75%-77% of our revenues and the balance is drybulk. This is just taking the shipping revenues excluding of other forms of revenue.

Moderator: We move on to our next question from Mr. Kapil Yadav from Dolat Capital.

Yadav: I just wanted to know about your subsidiary Greatship India Limited. How many vessels and what are the revenue days for Greatship (India) Limited?



Bharat: For the year that has just completed we had only one vessel so the revenue days are August to March i.e. 200 days and FY2007-08. We begun the year 2007-08 with two vessels, which will operate for the whole year, and then we are getting some vessels for delivery at the in quarter 3 and quarter 4 of FY2007-08. So we should about 1000 days.

The USD 331 million is a CAPEX being committed by Greatship (India) Limited.

Moderator: We have our next question from Mr. Dasgupta from ICICI Prudential.

Dasgupta: Sir just wanted to confirm a couple of things. This 2000 operating days in the Sharjah Subsidiary that is not the part of 14922 days.

Bharat: 14922 were for FY2006-07 in GES on a standalone basis.

Dasgupta: Sir the PSVs in the Greatship India what are the day rates for those?

Bharat: They have been fixed for different duration. One of this PSV has been fixed with ONGC for the period of five years at a rate which is around \$15,000 a day and the other one has been fixed with GSPC for a period of two years with various options and that has been fixed at about \$20,000 a day.

Moderator: We move on to our next participant from Ms. Shilpa from Kotak.

Shilpa: Yeah I just want a small followup on the rupee appreciation numbers that you have mention. You mentioned that every 50 paisa change in rupee would start have a Rs. 7 crores impact on the P&L which essentially means that if the rupee has been up by around Rs. 3.00 everything else remaining same, P&L should get affected by around Rs. 42 crores. Now my question is are you allowed to hedge and if so did you think about hedging to protect you business against this kind of currency movement?

Bharat: Yes we continuously do a certain amount of hedging on our dollar revenue. At the moment we have about USD 80 million, which we have sold at higher rates than the current spot market. I mean obviously what has caught us by surprise is the sudden speed at which the rupee appreciated.

Shilpa: Why is the cash flow impact lower than the P&L impact



Bharat: Because we have capital repayments which are in dollars and therefore, on capital repayments we tend to gain.

Moderator: We have our next question from Kamlesh Kotak from Asian Market Securities.

Kamlesh: Sir I just wanted to know about the profile of your Greatship assets the two PSVs?

Bharat: We have 1 secondhand PSV and 2 NB 80T Anchor Handlers (AHTSVs) to be delivered during FY 2007-08

Kamlesh: Okay. So their earning will be in the range of \$40,000 to \$60,000/day?

Bharat: No these are smaller Anchor handlers. These are 80 ton AHTSVs and we have to assess the earnings closer to the delivery dates. To really know what will be the revenues their earnings could be in the region of \$14,000 to \$16,000 a day.

Kamlesh: Okay and sir I wanted to know about average age of your asset for GE Shipping?

Bharat: It is just about 12.2 years.

Kamlesh: You have any single hull vessels now?

Bharat: In terms of dead weight on the tanker side about 47% of our tanker tonnage is single hull. In terms of number of ship I suspect it is about 12 or thereabouts.

Kamlesh: And sir just wanted to know what is the update on the forthcoming ONGC and Reliance tenders and you are participation?

Bharat: In the ONGC tender?

Kamlesh: Yeah.

Bharat: For the rigs?

Kamlesh: Yeah.

Bharat: Yes we have participated.

Kamlesh: And what about the other vessels? Has the tender been opened for them?

Bharat: Tenders were opened by ONGC and we did one boat and secured the business for one boat for a period of five years.

Moderator: We have our next question from Mr. Ritesh Rathod from UTI Mutual Fund. Mr. Rathod, please go ahead.

Ritesh: Yes sir. You said tanker contributing 70% on your revenue side and dry bulk 30% what is the contribution at EBITDA level and how it is moved in last one or two years?

Bharat: Well if you take the EBITDA the dry bulk for the year ended March 2007 has done significantly better compared to FY2005-06. If you exclude the gain on sell of ships I would say about 20% of the EBITDA has come from the dry bulk and about 80% has come from tankers.

Ritesh: Okay and sir your offshore vessels and offshore subsidiary can you put some light on the industry may be I have joined late. Sir, how the rates moved Is there you are seeing more competition coming in next two years or you see there is good demand and the competition would remain stable and the rates would remain stable?

Bharat: There are number of new boats that will be delivered in the next couple of years but demand continues to remain strong and if you see the rates there is obviously a big difference between what you can earn in the spot market and the sacrifice that you have to make on the earnings if you want the security of your five year cash flow. So the five year rates I would say are still very healthy by historical standards. The spot rates are very, very firm at the moment.

Ritesh: Sir, your strategy in terms of your two vessels. Any inorganic growth in you foresee coming on the offshore business?

Bharat: Not immediately.

Ritesh: Are we very active or would wait somebody to come and then we may see some kind of?

Bharat: No I mean if somebody brought some proposals we will be happy to look at it but it is not that as if we are a verse to any inorganic growth but at the moment we do not have anything that we have our eyes on.



Moderator: We have our next question from Mr. Nikhil Vohra from SSKI. Mr. Vohra, please go ahead.

Nikhil: Just on the creeping acquisition that we have been doing is there a plan that you would continue till a particular level of shareholding or is it more opportunistic in that manner of looking at fair stock price?

Bharat: No it is a gradual process and obviously one need to have money to able to do it so I mean ideally we would like to continue to acquire through the creeping route as and when it permits us.

Nikhil: And second is at what period do you think Greatship will start to contribute meaningfully to profitability for the overall business?

Bharat: Well it depends what you call meaningful.

Nikhil: If I presume on 25%-30% of existing profitability of the company?

Bharat: That is obviously difficult to say but the bulk of the assets that have been committed in Greatship in India will deliver between sometime by 2009 in the calendar year 2009 so I would say that in the way that you are defining the word meaningful my suspicion is that it will be sometime around FY2009-10.

Moderator: Thank you Mr. Vohra. Participants who wish to ask any further questions, may please press * and 1. Please press * and 1 to ask a question. As there are no more questions, I would now like to handover the conference to Mr. Rajat Dutta. Over to you sir.

Rajat Dutta: Thank you. Ladies and Gentlemen, This concludes today's earnings call. Thank you for your participation. The transcript of the same will be updated on the website for your future reference. We shall be glad to answer any of your questions, which could not be taken today due to constraint of time. Kindly send us an email of the same and we shall gladly respond to the same. Thank you once again.