

Transcript of Q1 FY05 Conference Call held on July 30, 2004

Moderator: Good evening ladies and gentlemen, welcome to the Great Eastern Shipping conference call on declaration of its first quarter results of FY 04-05. I would now like to hand over the conference over to Mr. Rajat Dutta of G E Shipping Company Limited.

Dutta: Thank you Welcome to the conference call for Q1, FY 04-05. I have with me Mr. Vijay Sheth and Mr. Bharat Sheth Managing Directors, Great Eastern Shipping and our CFO, Mr. Balan Wasudeo. Welcoming you all today I hand over the forum to Mr. Balan Wasudeo to make his initial comments on the quarter. Over to you Mr. Balan.

Balan: Good evening I welcome you all this. You must have by now seen the Quarterly performance of the Company as reflected in numbers. Let me take you through the highlights. The Q has been a very satisfying Q from an operational point of view. Our vessels which were on the spot market have kept in line with the markets. The company continues to grow and remain operationally efficient. Profits from operations, has grown by 48.8%. However, at the net profit level, the increase is subdued because of certain one-time charges and also certain non-cash charges due to adoption of accounting policies. Total income from operations and sales grew from Rs.286 crores to Rs.412 crores, a growth of 43%. This reflects the continual growth maintained by the company during the last 15 months. The DWT which was 1.54 million DWT as of June 30th 2003, has gone up to 2.8 million DWT as of June 30th 2004. Most of the increases have been at the higher end of asset profile. The revenue days has increased to 2719 days to 3311 days and keeping in view the relative buoyant market, which continues right into the summer months all our charter rates have been healthy, showing a 43% overall increase. During the quarter we sold a small vessel which was a vessel not in line with the market requirements at a loss of Rs.1.7 crores. As compared to this in the corresponding quarter of 2003, we have a profit of almost Rs.3 crores. There was a reduction in other income mainly because of variations in exchange rate and FX related variations. Overall income rose by 39% from Rs.300 crores to Rs.417 crores.

On the expenditure side, the company kept a tight control on costs thereby expenditure have not risen beyond the rise in the top-line. You will see an increase of almost 50% in the staff cost both floating and shore staff, most of it is in line with the increase in fleet and partly due to wage revision. There is an increase in repairs and maintenance cost. You may recollect, that during the last Q i.e. Q4 FY 2003-04, we had highlighted in our results that dry docking expenses are not uniformly spread over the 4 quarters of a year and there could be lumpiness during a specific quarter. In 2003-04, first quarter, we had mentioned that proportionately the dry docking expenses were lower. This quarter it happens to be somewhat higher and that has given an impact of about Rs.5 to Rs.6 crores adverse. Direct operating expenses are relating to the fleet expansion. Other expenses follow suit with tonnage growth.

Regarding unrecognized loss in foreign currency transactions let me clarify the accounting aspect. In the previous last 6 Quarters, the rupee has been strengthening and we always had a gain on, what is known as revaluation of all our current assets and current liabilities. This quarter the rupee made a historic reversal and there was a 5.23% depreciation in the rupee strength vis-à-vis the dollar and therefore as per the Accounting Standard AS11 we had to re-value all our current liabilities and assets which were denominated in foreign currency at the rate prevailing on June 30th 2004 which was Rs.46.04 as compared to Rs.43.75 which was the revaluation rate as on March 31st 2004. This led to a loss of about

Rs.20.7 crores merely on revaluation. However, the company had taken judicious decision and timely covered the foreign currency which had resulted in an actual realized profit of about Rs.15 crores thereby resulting in a net loss on currency and matters of 5.2 crores. Total expenditure of Rs.201 crores is about a 44% increase over the previous year thereby you will notice that our operating margins continue to be above 50% even on this quarter. In spite of the non-cash charge of Rs.21.7 crores coming from revaluation of foreign currency assets and liabilities. We believe that a 50% operating profit margin, is certainly a very good profit margin compared to other players in the shipping industry. Operating profit excluding the loss from sale of ship and the unrealized loss on revaluation of foreign currency was as high as Rs.237 crores as compared to Rs.160 crores in the corresponding quarter of 2003, which a 49% increase in a Qover-Q basis. Interest cost increased by more than 100% (Rs.22 crores versus Rs.10 crores). The reasons are broadly two: In order to finance large fleet acquisition during the last 12 months we borrowed from the international markets and this had increased the interest cost. Secondly, in this quarter in view the very favorable interest rates and the loan availability scenario internationally we borrowed more than Rs.400 crores to finance future acquisitions. The upfront fee payable on this alone was about Rs.5 crores in the quarter. Hence the combined impact of both of them resulted in a Rs.12 crore increase in interest cost. However I would like to point out here that though we have borrowed substantially our acquisitions continued to be very efficient and if you see the Q-on-Q increase in capital employed it is only a 35% increase whereas tonnage has grown by almost 80%. Depreciation charge again reflects the increase in fleet and the capital employed and to some extent up to Rs.6 crores, the fact that the rupee has devaluated in the quarter. So again as per Accounting Standard AS11, the loans which are attached to the acquisition of the ships have been added to the value of the ship and which are now getting depreciated over the period of the life of the vessel. For these two reasons depreciation has increased from Rs.42 crores to Rs.72 crores. These two disproportionately higher increases in interest and depreciation charges has brought down the profit before taxes to Rs.121 crores as against Rs.110 crores in the corresponding quarter, a mere 11% increase.

Coming to provision for taxes, the current taxes are low as compared to the previous quarter because of 33AC benefit which we continued to assume and hence continue to provide for deferred tax. The Finance Bill which is pending adoption, has introduced new taxation regime i.e. tonnage tax regime and has withdrawn Sec 33AC benefits under the Income Tax act 1961. Once the Finance Bill is passed in Parliament the deferred tax provision will become nil. However, we have taken the charge for current quarter and thereby the profit after tax from ordinary activities is Rs. 103 crores. Thus, the earning per share comes to Rs.5.27 which is a marginal growth over the previous quarter.

To summarize we had one-time impact basically from profit of sale of about Rs.4 crores, we had fees on loans raised during the quarter of Rs.5 crores which is about Rs.9 crores, we have Accounting Standards which required us to make a provision for the revaluation loss of Rs.20 crores and we have provided additional Rs.8 crores as deferred tax based on the existing tax regime and ignoring the tonnage tax regime. So all this together has an impact of about Rs.35 crores which we feel are not directly operational related but more one time and non-cash charges. So the results of this quarter need to be viewed keeping in view the above factors. With this gentlemen I come to the end of my presentation. I throw it open for discussion now.

Moderator: We have our first participant Mr. Harigeet of UTI Mutual Funds, please go ahead Mr. Harigeet.

Harigeet: My question pertains to the growth in top-line and vis-a-vis the growth in total expenditure for the past few quarters. If one looks at the last quarter, that is the fourth quarter of last year, the growth in top line was 75% as compared to the growth and expenses of 60% and if one goes further down again in the third quarter the top line growth was 45% as compared to the growth in 23%, whereas in the quarter under consideration both the growth in top-line and expenditure has been the same at 44%. If I were to take into consideration the Rs.5 crores extra provision that has happened because of Forex losses, then again the growth in expenditure is 41%. So, is it that the expenses of the VLCC which has been recently acquired has come in but the revenues haven't been booked for the last quarter. Am I right in assuming this?

Bharat: No, just to take you through the other expenses we made a reference, it is not just Rs.5 crores, it is actually Rs.20 crores Rs.70 lakhs, so really from the 44% growth in total expense, one Rs.21 crores is just a revaluation. So you first need to knock that out.

Harigeet: Yeah, even if I remove this from the other expenditure that is there, so actually other expenditures as a percentage of sales comes down to say close to 7% where as again if one were to look at the previous numbers the other expenditure has been at a level of say 12 to 13%.

Bharat: Yeah, we had additional dry docking expense in this particular quarter. Earlier we used to spread it uniformly, now we just debit it to the particular quarter in which the vessel has actually dry-docked. So this has a way of distorting to an extent a quarter-on-quarter comparison because if I had not dry docked the ship on say prior to 30th June, but I had done it on 1st July then, you would have just had a significant reduction in the repairs and maintenance expense. So if you look at the ratio, whilst it may not all come through here on a sheet of paper the top-line growth is broadly in line with the expectation and as far as the expenses are concerned with the exception of some increases in staff costs. We have this 4-year negotiation, so some of that extra expense have come in this quarter. I would say whether it is under repairs, direct operating expenses, other expenses, etc..., it is broadly in line with the expansion. So the ratios of my operating cost to top-line has not changed.

Also, a lot will depend on the exchange rate, if the exchange rate were to, I mean, in April-May we saw significant change in the rupee-dollar but if exchange rate were to say stabilize at today's level then you would not have these continuous revaluation. So, going forward, this is just a book entry, as you can appreciate.

Harigeet: My second question pertains to the tonnage. How much of your tonnage would currently be in spot and how much of it would be in long-term?

Bharat: If I break it up for you segment wise on the crude we have got 545 days cover and 554 on spot, so that's roughly 50:50. On the product business the bulk of it is covered, so we have got 1181 days covered and 402 days on the spot market. And the dry bulk is 29% covered which is 91 days and 617 days is on the market and on off-shore if you just take the different businesses the rigs are covered to the extent of 65%. The support vessels are covered to 67%, the harbour tugs to 73% and the sole construction barge have got 40% of its next 3 quarters covered.

Harigeet: Okay, pertaining to the deferred tax provision that you have taken, would you give us a flavour as to what is happening at the broad level with respect to tonnage tax, I mean, when it is expected to come in, what is the kind of taxes that you would report after the tonnage tax proposal comes into being?

Bharat: We expect that the tonnage tax position will probably get clarified once the budget is passed in the next month. Once in August it is passed, we will implement the provisions of tonnage tax to our books and take a view on how we want to treat the deferred tax situation. So I expect we will take it up in toto. So the deferred tax in the second quarter will be nil and the tonnage tax on the qualifying ship for the quarter will come to about between Rs.80 to Rs.90 lakhs depending on the number of ships that actually ply in that quarter.

HariGeet: What about the Sec 33AC reserve have been done so far?

Bharat: Sec 33AC is withdrawn so we have not created any 33AC reserves in this quarter. What happens is we have created about a Rs.140 crores deferred tax reserves in the previous quarter at some point once the Tonnage Tax Bill get enacted we will write it back.

HariGeet: Lastly, my question pertains to one of the problems that one of your rigs had in the last quarter, has this problem been solved, has the rigs started operations again.

Vijay: No, she is under repair yet. The current state is that the weather has been quite severe and so once the weather improves we will have to complete the repairs and put her back on stream.

HariGeet: What could be the estimated revenue loss, could you share the numbers?

Vijay: The top-line impact for the group could be in the range of about \$3 million and for Great Eastern it would be a lower figure because as you are aware that this is through our subsidiary Deep Water Services Ltd.

Anish: What were the numbers of dry-docking days?

Bharat: During this quarter we had a total of 94 dry docking days, last year corresponding period was 87 days for the shipping division and in the previous quarter it was 110 days, that's in the sequential in the Q4 of FY-04. What is important is that during this quarter, the docking were more in tankers and less dry bulk carriers. So, the higher revenue assets were being dry docked.

Anish: If I look at your P&L statement for last two years, '02 and '03 out of your reported net profit post-tax after having provided for section 33AC reserve most of the available profit was distributed as dividend. Going forward, what I understand by this tonnage tax is that only 20% of reported profits has to be provided for acquisition of new vessels as a Statutory Reserve for TT, so does this in any way change the dividend pay out policy and to what extent do you think?

Vijay: It is too early in the day to talk about the dividend pay out policy, we will have to take a overall strategy on what we want to do in case of dividends. Clearly the tonnage tax enactment has been done to promote more acquisition of tonnage. So, we will have to bear that in mind and do what is more judicious in the overall interest of the company and the shareholders.

Anish: Right, just as a follow-up, considering that asset prices continue to remain high, what would be your acquisition plans going forward?

Bharat: This is a function again, assets prices are high but they are high only in relative to the cash flows that the ships are generating in the moment. So, we continuously are looking at opportunities in the market. Having said that clearly we would have to be much more

judicious going forward because the acquisition that was enacted at the end of last year has given us very superior returns. At today's prices we would not be able to produce those kind of returns. Having said that as you can appreciate we need to average out because as a company we need to keep expanding. So, while we look at opportunities, in terms of the pace of acquisition it will slow down particularly looking at where the assets values are currently.

Anish: So keeping that in consideration, would it be fair to assume that we could have higher dividend payout in '05?

Bharat: As you can appreciate, a lot of the investments particularly those that have gone recently into tankers, they have all been single hull and these ships do need replacement by 2010. So, this sort of cash that is being generated, we would like to see it going back into modernizing the fleet particularly into the double hull category. On pay out ratios as my colleague has just pointed out, there is something that will be deliberated at the end of the year but broadly speaking I suspect, the pay out ratios will be where they are at the moment. Also, age of some of our fleet is going higher and higher and therefore may require replenishment and replacement in the coming years. We have to play a judicious balance in this regard.

Sachin: My question is regarding the earnings which you have given for period and spot charters for the current quarter, you have mentioned that crude in the period chartered had earned an average of \$17,440 and on the spot was \$29,944 could you give us the comparative figure for June last year.

Bharat: In Q1 of the last year we really did not have enough volume because all the spot business started really once we started expanding. The period was the same the \$ 17,442 was already in place by April-June of last year whereas on the spot we only had one ship, to that extent it is an aberration.

Sachin: So, basically the increase that we have seen in the overall TCY crude is primarily because of the higher spot in market. The average TCY which has increased to \$ 23,744 against \$ 22,109 is primarily because of higher running the spot in the market.

Bharat: That's right. If you recollect in this time last year we were running 40% of a much smaller cake in the spot market, today we are running 52% of a larger cake in the spot market.

Sachin: But does that mean that there has been no renewals in terms of the time chartering in last two or three quarters, because you mentioned that even last year June the average realization on the period charter was same 17,442.

Bharat: Yes, there has been no renewal in the crude segment and the reason is because the business was written for a period of up to three years and the crude segment where we are showing \$ 17,442 that comes up for renewal between February '06 and October '06, so until then it will remain at these numbers.

Sachin: So whatever the upside be would probably come from the spot market?

Bharat: Surely.

Sachin: How would it be on the product front?

Bharat: On the product front the ships that are on the period, 3 of them get redelivered to us between August and December 2004. 3 ships so, that is another 1000 days roughly over a 12-month period. The August one we have decided to keep her in the spot market, the one that comes later in the year also we have decided to keep in the spot market. Because we believe that this market is here to stay. We are increasing our exposure to the spot market as ships come out of the period fixture business.

Sachin: My second question is regarding to your operation margin, even if we exclude the Rs.5 crore losses that we had to be because there was an Rs.15 crore incomes and Rs.20 crore losses because of Forex, operating margins have moved up from 51.1% to 52.2%. Now, if one were to take your average realization then it is up around 7-8% in tankers in crude, around 11% in product and around 96% in dry bulk. Now considering that large part of our expenditure is of fixed in the nature, don't you think operating margins fall should have been better?

Bharat: No, the thing that you have to really knock off is the Rs.20 crore it is not just Rs.5 crore.

Sachin: The press release says that there was a unrealized Rs.15 crores and loss of Rs.20 crores.

Bharat: No, it is not a loss, what happens is that is a revaluation. If the exchange rate had remained static the profits would have been up by Rs. 20 crore not by Rs.5 crore because the realized gains that have come through, has come through due to the inter-quarter volatility and due to contracts that was sold in the past, that had nothing to do with the spot exchange rate or the exchange rate prevailing on 30th of June, 2004, that would have any case been realized. What happens is you have to revalue all your current assets, liabilities etc, based on an exchange rate on a given date. So, as on 30th June had the exchange rate remained the same as it was on the first day of the quarter you would have had a write-back of 20 crore 70 lakhs.

Sachin: Secondly, what was the Capex for the quarter that we incurred?

Bharat: About \$15 million but remember that out of that the VLCC was only added on the 28th June 2004. So, the earnings of that VLCC comes under capital employed as of 30th June, the earnings will only start reflecting Q2 of this year and onwards.

Sachin: Could you please elaborate on, Mr. Balan Wasudeo mention of Rs.5 crores you have to incur as one-time for the interest charges, could you please elaborate on that?

Balan: To finance our growth during the quarter also for future acquisitions, we had raised about more than Rs.400 crores of loans in this quarter alone. Normally in loan transaction besides the coupon rate, there is always an upfront fee to be paid to the banker. So that almost came to Rs.5 crore, we normally charge it off in the quarter itself instead of amortizing it over the period of the loan as a conservation accounting policy.

Sachin: Which means that it is a non-repetitive in nature?

Balan: Absolutely non-repetitive in nature.

Anirudha: Given the age of the fleet and the fleet profile, do you see that you will provide as a policy probably more than 20% in the reserve as per new tonnage tax laws to ensure that you are able to replenish your fleet, going forward?

Bharat: No, there is no connect between what we need to provide. 20% is only statutory. We might expand much more also.

Anirudha: Do you see that you will do actually much more than that?

Bharat: Yeah, but we don't have to provide it, we don't have to transfer more to a reserve. So, whatever we do the transfers of the reserves may be limited to 20%.

Dipan: Every time the rupee depreciates even as of the quarter end you will have these adjustment entries, which will impact the profits negatively?

Bharat: Yes, it will have to be done. We will have to take the position as on the first day of the quarter and last day of the quarter and dependent on that we will have to adjust the P&L accordingly.

Balan: Let me clarify little more on that. The revaluation of the loans, which were raised this quarter for buying of vessels, was utilized for buying vessels. Once you buy the vessel then the exchange fluctuations goes to increase or decrease the value of the assets and thereby depreciation. Only depreciation charge comes over the life of the vessel the entire difference even come in the same quarter, whereas at the moment since it has not been allocated or used for a vessel the entire debits is coming in one quarter. That is the difference between charging it on to a vessel or charging it directly to the P&L. And having said that hopefully you will not see every quarter a 5.23% rupee depreciation.

Dipan: You just mentioned the tonnage has gone up by 1.54 million dwt that is about mode of doubling of the capacity, yet we see 40% increase on the top-line growth, is it that charter rates have down for the quarter?

Bharat: No, because the charter rates have gone down compared to the sequential quarter that is Q4 of last year but much higher than what they were in Q1 of last year and remember that although some of this has doubled it only doubled from the point in time when you first taking into account. For example, the VLCC would reflect in the 30th June number but it has not earned anything because delivery took place only on the 28th of June. In addition we have particularly in the tankers where the volatility is much greater you have the front haul legs and the back haul leg.

Now it just depends if in any quarter you have more voyages doing front haul and less voyages doing back haul etc, so the right way to review the thing is just to see in terms of earnings on the spot market how the ships have performed.

Dipan: Is it possible to give a number as regards the average capacity in the quarter, weighted averages something of that sort? Just as you can compare...

Balan: One way to compare is to go by the revenue days. Shipping revenue days were 2719 in last quarter versus 3311 in current quarter so that is 600 day jump.

Bharat: Apart from this what is more important is where this has gone up, in what class of assets has it gone up.

Dipan: What I was trying to say is that if the shipping revenue days have gone up by 21% yet the revenues have gone up by 44% so which means that the quality and the realizations have improved because on that account.

Bharat: The fixed segment business of the tanker had no change because that is fixed at a fixed rate right up to 2006. First from the revenue days you have to knock off all the fixed days. Now if you see on the crude side the total days were 1100 days out of 1100 days 50% of it was fixed so that really did not benefit from the strength in the market, it is only the vessels which are on the spot that benefited.

Dipan: Going forward based on whatever capacity we have just now for the current quarter Q2, what would be the revenue days?

Bharat: Q2 the revenue days should broadly be in line with what they were in Q1 additionally the VLCC will go up but I think we have a little more in terms of dry-docking in Q2 as compared to Q1. Having said that we have many more front hauling in Q2 compared to Q1. So, the average earning that we have on the spot market which \$ 29,944 for Q1. Looking at the business that has already been booked in Q2 this average is currently running at about\$ 35,000.

Dipan: Is the management offering any guidance in terms of revenue top-line, bottom-line, current spot rates, something?

Bharat: We are not giving revenue guidance but all I can tell you is that, considering the we are in the summer month we have a extremely strong tanker market and this is predominantly driven on fundamentals so it is not a short term phenomenon that is currently impacting. Like in the past we have said that there are weather delays and have impacted the market or port congestion that has benefited the market etc, the current strength of the tanker market is driven by very strong fundamental as we keep reading the IEA estimate for the demand of oil increasing. In this particular Q, April-June we have seen something like a 5.4% growth in the demand for oil and 5.4% demand for oil translates to almost to 10% demand for tanker tonnage. In the next Q again if you see the demand for oil is expected to be stronger than what has just been in April-June. So, as long as the demand for oil remains in excess of 80 million barrels which is what it is looking like and once we come to the winter months some analysts are saying that it could go as high as 84 million barrels a day. Now if all these translate into a reality we expect the tanker market to continue to remain very strong. Even as far as dry bulk is concerned there was this big fear that China is just going to simply close shop that is clearly unfounded at the moment and while China may be slowing down its activities a little, it is probably finally going to translate into a soft landing. Current indications are that the dry bulk market also will remain strong and at very healthy levels for the next three Qs.

Sinha: I had actually three questions. First one is regarding the unutilized loan amount of Rs.400 crores that you said, the thumb up rules means that you are going to spend at least Rs.500 crores in acquisition of either shipping fleet or offshore. So, could you specify whether it is shipping or offshore?

Vijay: I guess it would be a combination of both. We will do what is in the best interest of the company as you will appreciate we already have a committed capex of around \$269 million, which is spread between August 2004 to September 2007. It consists of two Suezmax Ice Class crude carriers, four MR product carrier, four anchor handling tug supply vessels and a platform supply vessel.

Sinha: Second question is regarding the drop in offshore revenues, you have clarified that this is because there is absence of insurance recovery during this quarter, unlike in previous

years Q1 but going forward will these revenues continue or are they expected to increase depending on the utilization and charter rates?

Vijay: Let me explain that, in the first quarter, we had a one-time non-recurring hit of about Rs.6 crores. But on operation the hit was less than a crore. Q2 clearly is always a very weak quarter for the offshore industry particularly because of the monsoon season. For the balance quarters i.e., the 3rd and the 4th quarter we expect to improve the performance and we will be on target with what we had originally budgeted in the beginning of the year inspite of being impacted in Q2 by the non working of the rig which is undergoing repairs. That's what our endeavor would be.

Sinha: I had another question regarding the second VLCC that has been acquired recently; did it go for dry-docking before it went for charter hire?

Bharat: No, she is on the spot market at the moment, she will be going for dry-docking sometime between November '04 and February'05.

Sinha: I also had a question regarding the exchange rates fluctuations. Would you be able to give some kind of sensitivity of your P&L, say every Rs.1 depreciation of rupee against dollar? Say in terms of profit numbers, just in operational terms not in terms of re-pricing of your loans and other things, but in terms of operation of every Re.1 depreciation of rupee means how much to the bottomline?

Balan: Once you remove the revaluation impact, which comes as an impact on all your loans and liabilities and assets and look at the strictly operational level where we do take forward covers for our loan repayments, the interest charges impact was practically nullified. At the same time we feel the rupee strengthening; we take forward covers for revenue streams. It is the revaluation impact, which comes as a impact on the P/L.

Mohan: If you look at the broader market over the next couple of years, how do you see the net incremental tonnage coming through in the crude tanker business and you can throw some light on the mandatory scrapping regulations, how stringent are they, is there a possibility of people not scrapping seems at strong rates and in turn adding incrementally to the tonnage and eventually creating a bit of surplus in the market.

Bharat: I think, what is mandatory just has to be scrapped and it is not a function of the strength of this market. There are rules that have been laid down and however good this market is likely to get those ships have just to be scrapped. If you take 2004 and 2005, we clearly know the supply side because there is no additional capacity available till 2008. So we really have these numbers on hand and if you take the incremental demand for oil, really the supply and the demand side is extremely finally balanced. In fact, if the demand in particularly Q1 of the next calendar year that January, March '05, goes to 83-84 million barrels a day which is what some analysts and researchers are talking about today on would be forced to ponder on whether there enough tankers to meet this demand.

There is already enough debate about, is there enough oil supply to meet this demand. I think for the first time, people are beginning to say, are there enough tankers to meet this demand?

Mohan: Okay, in terms of the incremental tonnage increase which is going to come through, you feel it is broadly enough, just enough to meet the incremental demands. So there is no surplus, which will be created in the next couple of years?

Bharat: No, over the next couple of years, the base is the current forecast of oil demand, there is absolutely no surplus. Utilization is now running as high as it possibly can run and therefore any incremental shock; obviously either demand or supply will tend to enhance the volatility in the business.

Mohan: We have been reading of late that VLCC rates have touched 4-year high already where in summer months. Now does that clearly indicate that we are in for something crazy numbers when we enter the winter months when the north side freezes largely.

Bharat: I think, we have just been rewarded for the service which we provide and transportation is still only 10 cents or 20 cents on the barrel or whatever it is, it is still not bad. But yes, clearly the current VLCC rates have surprised almost everybody in this market. If you look at what it was this time last year, the VLCC was averaging between world scale 55 and world scale 60 and we have now got rate somewhere between world scale 140 and world scale 150. So it is very strong sum for all tanker owners. And going forward, we expect the markets will continue to remain strong. As to how strong they get is difficult to tell because then in a very finely balanced situation it is the severity of the winter, port congestion, port delays etc, that will play a very significant role. What happens during this winter we must wait and watch.

Mohan: And lastly Sir, there has been some reports stating that China might actually take in single-hull vessels beyond 2010. Now is there a possibility of that actually creating some surplus in the market because some reports are stating that, that is the major fear that can lead to downturn in tanker rates.

Bharat: First of all upto 2010, there is no issue on single-hull vessels loading crude oil. There is a ban on loading fuel oil, but let us keep fuel oil out of the equation for the moment. In 2010, there are two things that could happen. One is, depending on the strength of the tanker market, I think, charters, shippers, receivers would have to take a collective decision whether to continue to trade single-hull vessels or not.

Secondly decision by any country on a stand-alone basis to continue to trade single-hull vessels would be difficult. Please remember the ship has to load from some point which is another country/ region/territory i.e. the loading port, let us say that you are loading either in the Red Sea or the Persian Gulf or West Africa or Indonesia, if these places say sorry, no to single-hulls, then China themselves in isolation cannot pursue single hull and will have to fall in place.

Sachin: Sir my question is regarding the Capex of \$ USD 50 million. You mentioned that you raised close to around Rs.400 crores during the current quarter. Now if you want Rs.100 crores of net profit and Rs.70 crores of depreciation and considering that we had a very healthy cash results closed under Rs.400 crores as on March 31st. Could you please explain the rationale for going in for Rs.400 crore borrowing?

Balan: We have an ongoing Capital expenditure plan which I am sure you are aware. Even in this current quarter, we have spent about Rs.260 crores on deliveries. We have taken delivery of two dry bulk carriers and one VLCC. So, the amount of cash, which looks very big, really is not all that big considering that ship acquisitions. On other hand we found in this quarter, the borrowing condition extremely favorable to shipping companies, we got good offers and we decided to borrow.

Sachin: Okay, and secondly regarding the depreciation of the second VLCC we have bought. You mentioned that has been inducted on 28th of June. So how the depreciation been charged, charged for the full quarter or on a proportionate basis only for 3 years.

Balan: No, proportionate 3 years.

Sachin: You mentioned about the VLCC being going in for dry-docking somewhere between November and February. So don't you think you would be losing out on the peak winter earnings.

Bharat: Yes, we were hoping to drydock the ship actually in the month of July-August. Traditionally July-August are weak months when VLCCs, if you look at last year, they were averaging about \$ 20,000 a day. Currently, VLCCs were averaging \$ 70,000 a day. Now even at \$ 70,000/day it is very painful to have to dry-dock the VLCC. So we are trying to see how best we can reduce the dry-dock time. We were originally budgeting 30 days to dry-dock the VLCC. We are now looking at the possibility of reducing that. Maybe by as much as 50% and may be just postponing some of the work to some future date. But I agree with you, if we were to dry dock in February and let us say the market was more than \$70,000 may be it was a \$100,000 then we should have done it as today. But today you can't let go \$70,000 a day, which is cash in hand.

Pallavi: Out of this Rs.400 crores, how much would be spent during the quarter?

Balan: We had a capital expenditure, just mentioned before of Rs.260 crores, which is an ongoing process. So it is difficult to say how much is spent out of what. I would say that, out of the Rs.53 crores of unsecured borrowing raised towards the end of the quarter, about \$39 million were still outstanding to be utilized.

Pallavi: Right, is this money still parked abroad?

Bharat: That's right.

Pallavi: So to that extent, there wouldn't be any hit on this \$39 million? Is this only on this around \$10-15 million.

Bharat: No, we have other loans, which were raised earlier. What we do is as a company; we raise the loan when we think the timing for raising that money is right. We buy ship, when we think the timings for that is right. Now it is not possible for all the time to match the two. So there are these leaps and lags that come into play and....Some of the loans raised on the periods are still lying as loan, without allocating it to particular ship. So this revaluation that we have done is an Accounting Standard norm, is something notional. As we buy ship we will start drawing down on the cash, which also may happen if interest rates keep going up. If possible, we may start using some of our cash surpluses.

Pallavi: Right, out of it only \$ 39 million would be parked abroad.

Bharat: Yes, that's right.

Ashish: I have three questions, the first question is what is the current market prices, what is the NAV of GE shipping stock?

Bharat: It would depend on if you revalue the ships, which are under construction. If you were to take values of all those ship.... it will be somewhere between Rs.180-190 a share.

Ashish: We have a \$ 300 million dollar FX liability, what is the overall foreign exchange strategy of the company. Is it to maximize the gain or is it to minimize the risk in rupees. Because we are taking a Rs.20 crore hit in a quarter, that is obviously because we are un-hedged to that extent, right? So is our strategy now to minimize the risk or to try and maximize the gain?

Bharat: No, I don't think that we have taken a hit because we have un-hedged or anything. This is just a loan, which has been revalued.

Ashish: Okay, but if you revalue a loan on a given day that means it is un-hedged, right, otherwise you wouldn't have to take a hit.

Bharat: Yeah, let us say that we bought all our liabilities at the 1st April date what you say is absolutely correct. What we have done is, if you take a top-line, which is approximately \$300 million, we had sold approximately \$100 million. So that keeping \$200 million open to the vagaries of the FX market. This is on the revenue side. Now if you take our total expenditure in dollars, that's about \$180 million. This includes the annual repayment of our FX liability.

Ashish: But not the principal amount.

Bharat: No, the principal include the operating expense, this includes the interest and that portion of the loan which need to be repaid over the next 12 months. So let us say our annual repayment is roughly running at about Rs.200 crores a year. So that's broadly speaking \$45 million. \$180 million is reflecting the \$45 million. So broadly what we have done is, we have kept a natural position in our book. \$100 million we have sold keeping \$200 million open. \$180 is your running expense, interest and your \$45 million of capital repayment. So you gain on the \$200, you pay out on the \$180, and so you balance your book.

Ashish: So basically, then it looks the only portion open to FX fluctuation is the FX loan that you are carrying on your book other than what is to be repaid in the current year.

Bharat: You are absolutely correct.

Ashish: Okay, and this is the strategy that you are going to follow in the future as well.

Bharat: Let me get a very definite view, as you can appreciate. First of all, very honestly the steep fall in the rupee did catch all of us little by surprise. I mean at one time, that there was a big thing that rupee will go to Rs.40. Now everybody say that it is going to Rs.50. So what we say is that rather than going too much volatility currently in the rupee-dollar market, we just said keeps the book balanced. We gain somewhere, we lose somewhere else. Eventually it all evens out. The revaluation is just a book thing.

Ashish: I agree with you Bharat on this point. But this \$200 minus \$ 180, so this is more or less hedged against each other. Now I want to know where this Rs.20 crores has come out.

Bharat: We have got borrowings, now normally when you borrow the money, you buy a particular asset. Now what happens is there is a time lag, between the time you raise the loan and you actually put it in house, okay. During this time lag, whatever is the loan that is non disbursed in our own book that is what you have to revalue. Let me explain to you. This Rs.400 crores, suppose we buy a single ship worth Rs.400 crores, this revaluation will not

come up in future. So it is only that portion of the loan, which is not been utilized for acquisition or asset, is what requires revaluation.

Ashish: Now, this is again a repetition of the question, one of the earlier participants had asked, for every one rupee say appreciation of the dollar against the rupee. That is the rupee goes 47.5 or whatever. It goes down by one rupee. What is the effective hit on our bottom-line considering all the Accounting Standards that we have to follow?

Bharat: That will depend on whether Rs.400 crores is utilized or not. Because it is bound to be utilized at some time, then there is no impact. Because if you see our net position, is only \$20 million. So once we utilize this loan, we may utilize the loan tomorrow we may utilize in 2 months from tomorrow. But once it is utilized, then this revaluation exercise is no longer relevant and then as I told you earlier, we have a natural hedge. So every one rupee up or down, we are indifferent on P/L a plus or minus is there on the balance sheet.

Anish: Is there any compulsory scrapping for Great Eastern in the current financial year.

Bharat: In the current financial year, there is not compulsory scrapping, but we have identified two bulk carriers, which we would like to scrap. It is possible we may scrap them at the end of this financial year or at the early part of the next financial year. But two bulk carriers will need to be scrapped by July 2005.

Anish: Right, and they would have already been entirely depreciated in the book.

Bharat: Yes, because they are 1977 built, so they are 27 years of age. We will run them for as long as we practically can. Obviously, because the earnings are also very high, but they will cease to run by July 2005.

Anish: Right, so whatever is the sale price, will be reflected as the profit.

Bharat: yes the entire sale price will be the profit.

Anish: So considering current scrap prices, would you be comfortable in giving us some estimate on what could be the realization.

Bharat: About \$4 million between two ships, each ship has a lightweight of about 7000. So if you take 2 ships, it is 14000 and the current scrap price is about \$300 in the lightweight.

Manju: Can you tell me what will be your capital expenditure for the whole year and also I need to know the purchases and the sales, which you made during the year for the vessels. What is the acquisition cost per asset, you can give me break-up?

Bharat: We have a committed expenditure of \$269 million and the breakup is the following. We have 2 Suezmax Carriers to be delivered in 2005, four MR tankers with one being delivered to us next month. We have a platform supply vessel that will be delivered to us next month. We then have these anchor handlers to be delivered to us in the early part of next year, through the year.

Manju: Okay, and this acquisition, which you made in the Q1, what was the cost of it?

Bharat: Rs.260 crores.

Manju: And how much have you paid for acquiring the 38.64% taking PNO Travel India?

Bharat: Around Rs.52 lakhs.

Dipan: I was just going through the press release in which the tanker earned \$17,442 per day TCY and the spot was \$ 29,944, am I correct?

Bharat: Yes.

Dipan: So, how does that get impacted, now that in the tanker division, you got the VLCC, how do you see that rate moving in the current quarter?

Bharat: Looking at the business that has already been entered into for the current quarter, the current average from 1st July to today, I mean, and to whatever has been booked up to the middle of orders, these average of \$ 29,944 is currently running at about \$ 36,000.

Dipan: Okay, and fixed rate.

Bharat: The fixed rate will remain fixed until early to middle 2006.

Dipan: So presently, the VLCC on spot basis?

Bharat: Yeah, the VLCC is on spot, but remember once you fix the VLCC, the average duration depending of course where you trade, but just take the average traditional route, which is AG East, is normally 50 days. So if you fix today, then you are committed for 50 days. I mean, when we call spot, it is...

Dipan: I know it doesn't change everyday, not like the stock market, that's right. And the same could you give some indications for the product and the dry bulk, how do you think the rates would be?

Bharat: We have a couple of the product tankers been redelivered to us from the fixed rate business, one in the middle of August and one at the end of August. Both these ships will go on to the higher market because from the time that we have fixed it, the current spot rates were much higher. So two ships will move away from the period fixture to the spot fixture at higher rates. Looking at the business that we have for the product business, it is currently at about \$20,000, which is broadly line with Q1, which is \$19,967.

Dipan: And for the dry bulk?

Bharat: For the dry bulk, the period rate will go up from \$20700 to \$30000 because one of our larger ship entered the fix segment business at the end of Q1. The spot fixture we think will come down to about \$16000.

Dipan: And fix for the product would be how much, you didn't tell me that Sir.

Bharat: The fixed on the product, will remain the same that is \$13125. So that will remain the same, but two ships will go from period to spot.

Dipan: So the number of period, the revenue day will currently will go towards the higher rate?

Bharat: That's right, correct. You see they are coming off from rates, which are below \$13000.

Dipan: Rates of \$13000, they are going to rise to \$20,000 that's what you are going to say, right?

Bharat: Broadly speaking, correct.

Dipan: Okay, and also because of VLCC comes into play in this quarter, the revenue day which is 545 and 554, the shipping revenue is, that also will change significant because now that most of it will come under the spot and not under the...

Bharat: Yeah, the 545 will not change, because as I said, that is committed until 2006. So the 545 under the period will remain the same, the 554 will go up.

Dipan: Okay, to what number?

Bharat: It just depends on whether the voyage is completed in September or they roll into October. As you know, way we account for our voyages, the voyage must complete by the 30th of the quarter. So if it does not complete, then you have what we call an incomplete voyage, which then rolls into the subsequent quarter. If you take for the first quarter of this year, we have had 64 days of incomplete voyages Versus 4 days of last year.

Dipan: So all now next quarter is going to be positively impacted not only by the VLCC but this 64 days plus higher spot markets and better distribution between the fixed and the spot, am I right in my assessment Sir.

Bharat: Yes.

Vijay: I will just add one point on that typically the second quarter for offshore is always a little subdued. So while the shipping markets are looking very positive, the offshore market may not be quite as commensurate with that.

Dipan: Okay, thank you Sir.

Bharat: Thank you.

Dutta: Thank you ladies and gentlemen for participating in the Q1 conference call. In case you have any other questions, you may mail it to us. Thank you very much for your time and have a nice evening ahead.