

Transcript of the conference call held on October 30, 2003

Moderator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Great Eastern Shipping Conference Call on declaration of its second quarter and half-yearly results of FY '03-04. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press "*" & "1". I would now like to turn the conference over to Mr. Rajat Dutta of Great Eastern Shipping Company Limited. Please go ahead, Mr. Dutta.

Rajat Dutta: Good afternoon, ladies and gentlemen. Thank you for logging in. We have with us Mr. Vijay Sheth and Mr. Bharat Sheth, Managing Directors, who will be glad to address the questions on the company's performance and the industry prospect. But before that, I would request our CFO, Mr. Balan Wasudeo to give the financial highlights of the second quarter and the half-year for the financial year 03-04 ended September 30th, 2003. I request Mr. Balan Wasudeo to kindly do the needful.

Balan Wasudeo: Good afternoon, gentlemen. I am Balan Wasudeo, the CFO of the company. It gives me pleasure to welcome you all for this announcement of the Q2 results for FY '04. I am sure all of you have the press release and the results in front of you. I will very briefly go through the highlights so that we can spend more time in the question-answers.

The net profit for the quarter was Rs.80.12 crores, which is a 41.2% increase over the corresponding quarter of FY '03. The main drivers have been, higher revenue base, higher dry bulk earnings, some reduction in tax provision, and some refund and other prior period credits. Partly, on the negative side, we had softer tanker market and a higher depreciation. That was on a summary basis. Let me just go through the highlights line by line.

The revenues were higher by about 12% in Q2 over the corresponding Q. This is mostly because the revenue days in the shipping increased by 10%, from 2453 days to 2683 days, and all because of the recent additions to our fleet, which you must be hearing about reading in the press. During the quarter the tanker rates had somewhat softened as compared to the corresponding quarters. However this was offset by a very powerful surge in the dry bulk commodity market, as freight rates saw some historical peaks. The offshore division, which is also a very important part of our business, was on an even keel, with capacity utilization and daily earnings at the same level.

Coming to gain on sale of vessels. During the quarter we had sold 2 vessels, Jag Raksha and Jag Priya, which yielded a profit. Other income, is showing a very large growth, partly because of refund of interest from Income Tax and also exchange gains on the Forex side.

While the revenues grew by about 12%, if you come to the expenditure side, it grew by about 11% during the Q. The small mismatch in the growth in the expenditure was because of higher amount of dry-docking expenses in the shipping division. You will recollect during the declaration of Q1 results we had pointed out that dry-dockings do not necessarily happen in a uniform way quarter-on-quarter. So, the Q2 saw a little higher amount of dry-docking expense, which brought the growth in expense a little out of line, with the growth in revenue.

However, the gross margin in this quarter was fairly healthy at 40.4% as compared to 38.1% in the corresponding Q of last year. The company has managed to maintain interest and depreciation charges at the same level, in spite of larger loans and addition to fleet. This is partly due to the softening interest rates, and strengthening of the rupee.

Gentlemen the profit before tax was Rs.77.23 crores, which was a healthy increase of almost 23% over the corresponding period of last quarter. The half years profit was Rs.186.89 crores, which is a 85% growth over the corresponding half year of last year.

You notice the reversal of deferred tax in this quarter of Rs.3.44 crores, this is because of excess provision which we had made in the earlier quarter, which is no more required, based on the current requirements of deferred tax, and hence this had to be reversed. We also had an prior period adjustment on account of refund interest on income tax of Rs.4.1 crore in the quarter. Considering all that, the net for the quarter, went up to Rs.80.12 crores, a 41.2% growth over the corresponding quarter as I said in my opening remarks, and on the half-yearly basis, the increase was 104%. I now throw open the field for question-answers. Thank you gentlemen.

Q&A

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press “*1” on your pushbutton phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the “#” key.

We have our first participant Mr. Chandresh from ARG Securities. Please go ahead with your question.

Chandresh Chandaria: Hello Sir.

Chandresh Chandaria: I would just like to know the status of tonnage tax, what do you feel?

Sheth: From what we understand, the Finance Ministry has set up a committee looking at tonnage tax, and we are hoping that the draft proposal on the tonnage tax will be finalized shortly, and subsequently sent on to the Law Ministry to have a look at it. And I think the industry is quite confident and remains positive on the introduction of tonnage tax.

Chandresh Chandaria: But this we are awaiting since last 3 years.

Sheth: You are absolutely right. We are also growing a bit impatient. But we are seeing a lot of progress being made this time round. So, I think that there is a lot of emphasis on tonnage tax and we also understand that, the progress that is being made is very, very positive.

Chandresh Chandaria: And what do you foresee for the next 2 years tanker rate?

Sheth: I think it is very difficult to talk about 2 years on the tanker market, because there are just too many unknown variables at this stage. As you know there are a fair number of new building ships to be delivered over this two-year horizon. At the same time we expect the US, Japan and the European economy to do well as it is now being talked about. The demand for oil next year should grow at about 2.5%

and if this demand for oil grows at 2.5% we think the tanker rates over the next 2 years should be reasonably firm.

Chandresh Chandaria: Thank you sir.

Moderator: We have our next participant Mr. Anish Desai from HDFC Securities. Please go ahead Mr. Desai.

Anish Desai: Right. Good evening everyone.

Anish Desai: Right, I was being told that there is a restriction on the number of questions, I might have to exceed that if permitted. Firstly, at the beginning of the year you all mentioned a CAPEX plan of Rs.830 crores of new buildings. I was wondering how much of that you know, investment plan has been completed as of the end of the half-year?

Sheth: For each of the division we have a CAPEX plan and the total amount of committed CAPEX for the company as a whole is about Rs.1,000 crores as we speak today. That includes assets, which are new buildings and assets, which are second hand, contracted and pending delivery.

Anish Desai: Okay. So, you are saying that going ahead there is still an additional amount of Rs.1,000 crores.

Sheth: No, what we are saying is that as we speak the committed capex is Rs.1000 crores.

Anish Desai: For new buildings as well as second hand assets, but just going back to my earlier question outside Rs.830 crores point to point, if I had to just ask you of that CAPEX which was committed for new builds. How much of that has been completed? Would you have any number?

Sheth: Yes, Anish first let me just clarify Rs.1000 crores is committed as we speak. This includes new buildings as well as second hand acquisitions.

Anish Desai: Okay.

Sheth: So, and in that 1050 it starts with deliveries from next week. So there would be 2 vessels out of this 1050, which are 2 tankers. 1 is the VLCC and 1 is an Aframax tanker, both of which will be delivered in November. Thereafter we are getting some of our new buildings delivery in January and there will be regular interval intermittent deliveries of new buildings between the offshore and the shipping segment between January '04 and September '05.

Anish Desai: Right. As a rough-cut number on the breakup of how much of this 1050 would be on new builds and secondhand tankers.

Sheth: About Rs.160 crores is in secondhand and the balance about Rs.900 odd crores is new buildings.

Anish Desai: Okay. Consequently, considering that you have such a large CAPEX plan and besides that some of it is already been completed in the first half, what would be the existing debt on the books currently?

Sheth: About Rs.1300 crores.

Anish Desai: Rs.1300 crores and if I could ask you, what would be your current cash and investible balance?

Sheth: About Rs.600 crores.

Anish Desai: Rs.600 crores. So that number has not changed much, in the last 6 months?

Sheth: No, it peaked at about Rs.700 crores odd but we have just today repaid, the final leg of the FRN installment.

Anish Desai: Okay.

Sheth: So we are down to about Rs.600 odd crores.

Anish Desai: As you mentioned that in the first quarter there was probably less than proportionate docking subsequently in this quarter, are we saying that there was more than proportionate dry-docking and could you give us a sense of, how many ships do you dry-dock and what is the average time period for which the ship is not in commission?

Sheth: As was explained by our CFO drydockings do not take place uniformly and depends on which ship is coming in turn. But at an average, we probably lay up somewhere between 3 to 5 vessels a quarter. Depending upon which survey the ship is undertaking and also the age profile of the asset, the lay-up period varies from the minimum of about 10 days to probably a maximum of about 30 to 40 days.

Anish Desai: Okay, so this is on each asset.

Sheth: Yes that's right.

Anish Desai: All right, so in this quarter, would there be a little more than proportionate dry-docking?

Sheth: That's right

Moderator: Our next question comes from Mr. Jinesh Gandhi, from Motilal Oswal securities. Please go ahead Mr. Gandhi.

Jinesh Gandhi: Good evening sir, let me first congratulate for good results. Sir, can you give me breakup in terms of EBIT of shipping business, product tankers, crude tankers and the dry bulk business.

Sheth: Yes, we can give it to you for Tankers and dry bulk separately.

Jinesh Gandhi: Okay.

Sheth: For Q2 it was approximately Rs.65 crores and Rs.20 crores from dry bulk.

Jinesh Gandhi: And revenues sir any idea?

Sheth: Yes, total earnings on tankers for the quarter, if you include the profit on the sale of ships, was Rs.159 crores. And for dry bulk it was Rs.40 crores.

Jinesh Gandhi: And sir can you give me any ballpark figure for number of tankers renewed in this quarter?

Sheth: In this quarter, we renewed 3 crude oil tankers. We have not renewed anything on the product tankers. Those renewals will come up in Q3.

Jinesh Gandhi: Okay the VLCC which you have bought, has it been contracted, I mean for future.

Sheth: Not as yet we take delivery of the vessel on the 5th or the 6th of November. And the vessel will only be available, from a loading perspective or revenue perspective, by end November. We still have about a month, till we start deploying the vessel.

Jinesh Gandhi: Okay. So, once you receive the delivery then only you deploy it?

Sheth: Well, firstly we have to receive the delivery of the ship and we have to then position her in about 20-25 days down the road.

Jinesh Gandhi: Okay Sir, thank you.

Moderator: We have our next participant Mr. Sachin Kasera from Pioneer Intermediaries. Please go ahead Mr. Kasera.

Sachin Kasera: Good afternoon Sir, and congratulations for the good results.

Sheth: Thank you

Sachin Kasera: Just had couple of queries. One, is regarding the sharp increase in other income, both from interest and dividend, and as well as under the head 'others'. Could you throw some light on that.

Balan: The increase in interest and dividend was partly due to refund of the income tax, we also got a refund of a large amount of interest from the department.

Because, these are all pertaining to assessment of 1995, 1996 etc. And coming to the next item of others, as I said in my opening remarks, this is, to some extent explained by the Forex gains we had on our forward positions, exchange gains.

Sachin Kasera: Okay secondly Sir, regarding your performance in the offshore division, if you just see your PBIT performance, the Q1 was roughly around Rs.38-40 crores, as compared to PBIT for offshore in the current quarter say around Rs.20 crores. So, what expense resulted nearly 50% drop in the profits of offshore division for the quarter?

Sheth: Well, basically, you know in case of the offshore division some of the dips were because 1 or 2 of our assets did not work during the quarter, which is typical in the offshore business as far as the construction activity goes, and even our 2nd rig was only deployed for about 15 days in the quarter. So, that also explains the position. We also had a major dry dock in one of our ships during the quarter. So, all put together, these all contributed to a lowering of the EBITDA figures.

Sachin Kasera: But sir, if I get it right our rig was also not working in the first quarter. So, if you look on the year to year basis it does explain. But, if you look on a quarter-onquarter basis, as such the rig was not working even in the June quarter.

Sheth: Yeah. There was also one more additional factor, in Q1 we had an extraordinary income, partly through an insurance claim which was settled in the first quarter and we had a sale of an asset in the first quarter, which was not repeated in the second quarter. That amounted to nearly Rs.6 crores.

Sachin Kasera: Okay,

Sheth: So, that was also a non-recurring kind of situation

Sachin Kasera: Okay, and Sir, you talked about some major dry-docking expense for offshore in the quarter. Could you just tell it, what was the amount spent on

that?

Sheth: It was round about, Rs.3 to 4 crores on one asset. And you must not forget that the asset did not earn during the quarter. So, the impact on the earnings was much higher than that.

Sachin Kasera: Okay. And Sir, going forward, what is the outlook for offshore for second half of the current year?

Sheth: Well, it should be reasonably satisfactory, I think, we have certain areas, which we need to cover-up, particularly in the construction area, on the balance I think it should be a satisfactory second half.

Sachin Kasera: But sir, year-on-year, do you expect it to be better as compared to last year the second half for offshore?

Sheth: Yes, I would say so I think, it would be better.

Sachin Kasera: Okay. Sir just one last question regarding shipping division. We just bought over one VLCC, now going by GE Shipping's stand it used to normally look at building fleet of vessels in any particular class. So, is it that, in VLCC also, we would look at having a fleet of around 3 to 4 vessels going forward, or would only be looking at single VLCC right now.

Sheth: Well, at the moment we have got 1 VLCC, but you know we will wait for opportunity to come. If we get opportunities, once we get a feel of the VLCC market, because remember this is the first time we will be running a VLCC. So, once we learn how to manage it commercially, we will probably over a period of time, build on it. But, in the foreseeable future, I don't see that happening.

Sachin Kasera: And Sir, one last question on the dry bulk side. We have seen some pretty strong movement in the dry bulk segment, but considering that GE Shipping was sitting in large pile of cash, don't you think that GE Shipping would have been better, if we had bought lot more vessels even on the dry bulk side, so, could you just throw light on what was the strategy behind not getting into dry bulk in an aggressive way?

Sheth: Well, I think, two things. one is that, we lost out on the best time to invest in dry bulk, probably in 2002. And in 2002, maybe it was unfortunate, but we just sat waiting for the Shipping Corporation of India's divestment to take place. And we just sat on cash almost for 12 months. By 2003, when we took a decision to step out of the SCI divestment process, asset values had moved up very considerably. If we were to invest now in dry bulk, the returns on a sustainable basis would be very difficult to meet cost of capital. Second the boom in the freight rates that what we are seeing has only been there since the last 30 days. How long this will sustain is very, very difficult to say and if you buy expensively, you need a market to sustain itself at least for 2 to 3 years before you start making sensible returns. So, it is not that easy to enter the market and get out of the market just because spot rates have gone up this quickly.

Sachin Kasera: Thank a lot, sir.

Sheth: Thank you.

Moderator: We have our next participant Mr. Ravindran from Business Standard. Please go ahead Mr. Ravindran.

Ravindran: Mr. Sheth good evening, Ravindran here.

Sheth: Good evening.

Ravindran: Basically your net profit has grown by 41.23% while your revenues have grown by around 12%. Now, this points to a lot of expenditure management. So, which are the areas in which you have managed expenditure very well? I mean which are the areas where you have cut cost? Could you throw some light on that?

Sheth: Cutting cost is a continuous process, we have tried wherever possible to cut costs, whether it is in terms of repairs and spares, whether it is in terms of crewing etc. I mean, this a process that really as you will recollect began 2 or 3 years ago and some of this is

beginning to bear fruits. I think really the other effect Mr. Ravindran was on account of

interest rates. You will appreciate that first half last year versus first half this year, there

is a sharp drop of interest rates. So that has had a positive impact plus the fact that the

rupee has appreciated has reduced our debt cost.

Ravindran: Okay. Other thing is, freight rate on the tanker side has softened, which is

primarily I think due to the post Iraq effect. So, next quarter will freight rates be driven

by dry bulk or will there be a reversal of the trend in terms of crude catching up again?

Sheth: The crude rates have actually started picking up, and as far as products are concerned, it will be driven by the severity of winter in the northern hemisphere.

What we understand is that America, Europe etc are expecting very cold winter. So if you get a very cold winter you could see not only a greater movement of crude oil, heating oil etc.

but also you could also see a lot of disruption in shipping traffic. Which in itself helps in improving the freight market.

Ravindran: Thank you Mr. Sheth.

Moderator: We have a next participant Mr. Anto Joseph from Economic Times. Please go ahead Mr. Joseph.

Anto Joseph: Good evening everyone. This is Anto Joseph from Economic Times.

Sheth: Good evening Anto.

Anto Joseph: Do you think you got into the VLCC market, when the market is not doing very well? How is the market performing now? For the last couple of months it is in a big mess, what is your assessment about market?

Sheth: Well I would not say that it is in a big mess. If you track the market, currently the spot rates are somewhere at about WS 75 to 80, which translates into a daily earnings per day of somewhere between \$33 and \$38,000 a day depending on which route you are on. So, by all standards that's a pretty strong market.

Secondly, when we invested in the VLCC, we did it at the time when we thought the opportunity was right and we were getting a very quick delivery of the VLCC. As you know, there are very, very few VLCC's actually transacted this year. So, it is not as

if, we as buyer or any buyer globally can pick and choose, when they want to go and buy a ship.

Anto Joseph: That's right. But, are you planning any more VLCC's? Another thing I would like to know do you want to keep all your vessels flying the Indian flag, or you looking at other options, given the fact that tonnage tax regime is a long dream?

Sheth: Yes, we are all eagerly awaiting the tonnage tax announcement as it were and we will see on what the basis the government give us the tonnage tax as an industry. So, you know, lets just wait and watch until we have an answer on tonnage tax. As far as the VLCC is concerned as I have answered just now, we would like the first VLCC to settle down, we will start getting a feel of that market, this is the first time Great Eastern will be trading a VLCC. So, let that ship settle down and we will then go out and decide whether to buy a second one or not.

Anto Joseph: Mr. Balan mentioned about some Forex gains could you please throw some light on that?

Balan: If you remember, after the AGM also, we had explained this to you. We are allowed to sell our freight earnings, which are in dollars forward.

Balan: To give an example we have a charter for 1 year, I can sell those charter earnings for the next 1 year in advance. So, I get a forward premium.

Anto Joseph: Okay.

Balan: So, that comes as a gain when I deliver the dollars as the charter earnings come into my bank account.

Anto Joseph: Okay.

Balan: So, that is nomenclated as an exchange gain.

Anto Joseph: Okay. Can you quantify that, how much was that in last quarter? Do you have some figures?

Balan: Off hand, we don't, I don't remember those figures now.

Anto Joseph: Okay. Thanks a lot Sir.

Balan: Thank you.

Moderator: We have our next participant, Ms. Lalitha from Sundaram Mutual Fund. Please proceed with the question Madam.

Lalitha: On an industry wise basis, you were saying that demand has gone up on the dry bulk and the demand is expected to increase on the crude side. Now, going to the capacity additions, what kind of capacity additions do you expect both in the dry bulk and the crude side?

Sheth: Capacity addition of Great Eastern or for the industry?

Lalitha: For the industry and for the company.

Sheth: The capacity addition on dry bulk for the industry is very minimal for 2003. I mean, it's going to be very, very negligible. As far as tankers is concerned for the industry, the capacity addition for the next 6 months of this year, as well as for all of next year, is going to be very, very high. As far as Great Eastern is concerned, on

dry bulk, we really do not see any capacity addition over the next 6 months. And on tankers we will have a capacity addition as we have just said, we are taking delivery of 2 ships next week and then some time in January we have the delivery of a newbuilding Aframax tanker. So, we should be adding, at least 3 tankers. Of course, if we buy anything further between now and March, that will be in addition to the 3 mentioned.

Lalitha: Okay. Can you just quantify in terms of percentage, for the industry as such, what would be the percentage increase in the capacity addition for the tanker?

Sheth: About 24%, is at the moment under contract and under building. These 24% will get delivered between now and end of 2006. But this is at a gross level, not at a net level. Because obviously, as you will appreciate, there will be a lot of deletion between now and 2006. On a net basis, we think that the addition to the tanker fleet will be about 3% to 3.5%.

Lalitha: Okay. Fine, thanks.

Sheth: Thank you.

Moderator: We have our next participant Mr. Rahul Chada from Aviva Life Insurance.

Rahul Chada: Yeah. Congratulations on good numbers, Sir. I joined the conference call a bit late, so a part of my question is being answered by your previous reply. But I wanted some more perspective on the demand side, probably over next 1 year. How do you expect the demand in the dry bulk segment to fare over next 1 to 1.5 year, and same in the tanker market, Sir?

Sheth: As far as the dry bulk market is concerned, all indications at the moment are that the demand should remain very strong. Whether it remains as strong as it is today, I do not think anyone has an immediate answer, because the current strength of the dry bulk market has taken everybody by surprise. But on average, we think that the dry bulk demand will remain strong even going forward into 2004. As far as tankers is concerned, you know, if the US, the European economies, and Japan, all these economies deliver, and China and India continue to grow at these current rates then the tanker demand should increase by 2.5% next year.

Rahul Chada: Thank you.

Moderator: The next participant is Mr. Ashish Kacholia from Lucky Securities. Please go ahead Mr. Kacholia.

Ashish Kacholia: Good evening to the Great Eastern management team and congratulations on a good set of numbers.

Sheth: Thank you.

Ashish Kacholia: My question pertains to the stage of the cycle in which we are in all the 3 segments. Could you throw a little bit of light, in the sense that the dry bulk seems to be at the very top of the cycle as it seems to be an extremely good market. What about the other two segments, which part of this business cycle are we in at this point of time?

Sheth: Yes. Dry bulk as you just rightly said, is at an extraordinary high, it is at a point that has never been before. On tankers I would say that we are somewhere sort of marginally above 10-year average. But what we have seen happen in the last

3 weeks is an improvement in the crude market. We have also seen the first signs of an improvement in the product market.

Ashish Kacholia: And in the offshore segment?

Sheth: Well, I think the offshore segment looks promising of course. Some of these actions we have to see in the context of NELP. You may recollect that government has awarded about 70 odd blocks in NELP of which 56 are offshore related. And you know there is a commitment given by the NELP licensee that he has to explore and develop some of these fields depending on the seismic results. Now as far as we understand that each of these blocks would require anywhere between 3 and 4 wells to be drilled and you are looking at about 200 odds wells to be drilled on these 56 blocks. We understand that in about 20 blocks work has actually been carried out. So, you are looking at another about 170 to 180 wells to be drilled in the next 2 to 3 years. One needs to see what activity levels that translates to, because some of this will be depend on the success of the first well itself. On the balance we remain quite positive.

Ashish Kacholia: But this part of the revenue again depends on the global market conditions right? It is a not country specific pricing factor right?

Sheth: It is country specific.

Ashish Kacholia: It is not linked to the global market in that segment.

Sheth: Well, it cannot be independent of international market. But the oil and gas business is very coastal in its nature. It is always conducted on the coast of any country.

Ashish Kacholia: What is underlying net asset value of the company currently?

Sheth: We think it is somewhere in the low Rs.90s.

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Ashish Kacholia: Okay and my last question, what is the current book value of the company if you credit the 6 months working?

Sheth: It is close to Rs.65

Ashish Kacholia: All right. Thank you very much, and all the best for the coming quarters.

Sheth: Thank you.

Moderator: We have our next participant Mr. Sumeet Mehta from KR Choksey Shares and Securities. Please go ahead Mr. Mehta.

Sumeet Mehta: Good evening Sir, congratulations on a very good result.

Sheth: Thank you.

Sumeet Mehta: First question relates to the dry bulk segment. The market is strong and you do not plan to add any tonnage in that, so is that change in your focus on being primarily a energy transportation company?

Sheth: No, energy transportation also covers certain dry bulk commodities for example, steam coal. As to whether we are currently looking at investment in dry bulk, I do not think we are, because the asset values are very high and in order to get decent returns, we need this market to continue on a long-term basis, and we are not very sure at this stage, how long, these kind of market trends continue.

Sumeet Mehta: Could you throw some light on what would be the kind of demand supply for rigs in next 2 to 3 years and how would daily rate vary over the same period of time?

Sheth: You have to take rigs in various segments. You have what are called jack-ups, floaters and the demand for jack-ups in our opinion will be very, very positive, particularly, the cantilever jack-ups. We believe that with the NELP going-forward, the activity levels for the jack-ups will be very positive. Given that, I think, there will also be a lot of activity for rigs in deepwater. We must not forget that recently ONGC awarded the Sagar Samridhi Project, where they have awarded two deepwater drilling rigs contracts on a turnkey basis. So, that itself will trigger off a fair amount of activity and depending on the success of this, you will see further action on this front. So, I think the position, as we see it, is quite positive.

Sumeet Mehta: Yes Sir. Thanks very much.

Sheth: Thank you.

Moderator: We have our next participant Mr. Kailash from Financial Express. Please go ahead, Mr. Kailash.

Kailash: Good evening Mr. Sheth. The expansion, you have mentioned about Rs.1000 crores during the remaining part of the current fiscal, will any of this amount go into purchase of any rigs? Or it will be restricted only to the shipping business?

Sheth: It will be between shipping and offshore, but in offshore it will be mainly in the PSVs and AHTSVs.

Kailash: You mentioned the existing debt at around Rs.1300 crores, how much of this is in foreign exchange?

Sheth: More or less, Rs.1250 crores

Kailash: Okay. And you also mentioned that there was an interest benefit.

Sheth: There was a benefit because of soft interest rates.

Kailash: Thank you very much.

Sheth: Thank you.

Moderator: We have our next participant Mr. Chandresh Chandaria from ARG Securities. Please go ahead Mr. Chandaria.

Chandresh Chandaria: Hello sir.

Chandresh Chandaria: From the discussion that we had, it appears that you are quite optimistic of the future. So assuming that the government reconsiders the entire process of Shipping Corporation again, would you show interest in it?

Sheth: No.

Chandresh Chandaria: Thank you.

Sheth: Thank you.

Moderator: We have our next participant, Mr. Amit Goela from Alchemy Shares and Stock Brokers. Please go ahead sir.

Amit Goela: At the beginning of the call you said that the total operating days stood at 2683 for this quarter? With your new capacity, which is coming up, you said that it goes up by about 21% and with proportionate layoffs in this particular period for dry docking. What will be your operating days in this current quarter sir?

Sheth: I think in the third quarter it should be just over 3000 in only shipping.

Amit Goela: Okay, so you are talking of increase from 2683 to 3000?

Sheth: Yes approximately.

Amit Goela: And sir in the 4th quarter you are expecting same level or increase or expecting a further increase because of your deliveries?

Sheth: We still do not know because some of the ships are due for lay up in February-March, whether that goes into April of next year or remains in February-March in the current financial year, we are not sure. But there are approximately 150 days of lay-up in the fourth quarter.

Amit Goela: You have said in your press release that about 47% of your crude tankers are still booked in terms of long-term charters. Sir does it include your new capacities also which are coming in or is your new capacity fully open right now?

Sheth: Two of the ships which are coming for delivery in another week to 10 days time have been included. The crude carrier that is due for delivery in January 2004 has not been included in this calculation.

Amit Goela: And, Sir, now the rig is fully deployed.

Sheth: Yes.

Amit Goela: Okay Sir. Thank you so much.

Sheth: Thank you.

Moderator: We have our next participant Mr. Samir Ranade from Business Standard. Please go ahead Mr. Ranade.

Samir Ranade: Thank you. Good evening Sir.

Sheth: Good evening.

Samir Ranade: The press release says that the freight rates have been lower in crude, I am talking about, compared to the corresponding quarters they have been lower, at around

18,000 versus 19,000. How were they compared to the first quarter?

Sheth: First quarter they were about 22,000.

Samir Ranade: And as on date, are they still going down or do you see them stabilizing, especially with new capacities...?

Sheth: They have actually gone up in the last few weeks. So, if the current trend persists, then over the next 90 days, on average it should be better.

Samir Ranade: Okay. So, what would they be at currently?

Sheth: Currently, they are somewhere around 20,000 I would say.

Samir Ranade: So, they are going back to the same levels as in the first quarter?

Sheth: Yeah. Well, you know, because a lot of this also depends on where you are

precisely trading the vessel. And, the VLCC, which will now come in, could have a very significant impact. Because we have seen in the last quarter itself, we did not have our VLCC then, but in the last quarter the fluctuations have been from about \$15,000 a day to about \$50,000 a day.

Samir Ranade: Okay. So, with a large part of the crude carrier not covered, there is a possibility that they will be covered at a higher price?

Sheth: Yes, there is a possibility but there is also a possibility that some of these vessels may be kept in the spot market, because traditionally, you know, we are moving towards the winter months, where logically we should see a stronger spot market.

Samir Ranade: Okay. Thank you, Sir.

Moderator: We have our next participant Mr. Anirudha Datta from CLSA India Ltd.

Anirudha Datta: Good evening sir. I am sorry I have joined the call a bit late. So, maybe this question might have been answered before. Given the spurt in dry bulk rates, which we are witnessing, are you hearing in the industry of some contracts, which are getting renegotiated or re-priced by the shipping companies.

Sheth: Well not, certainly, not by the shipping companies. But what is happening is that a lot of the charterers internationally, I do not know about India in particular, are trying to renegotiate the contract. Because you know, those people who were long on cargo are suffering very significant losses at the moment.

Anirudha Datta: Right and given the fact that over the next 2 years there is a lot of supply expected and all the ship building yards are full, do you think these kind of rates will sustain or do you see going forward the rates coming off the highs.

Sheth: Are we talking about dry bulk?

Anirudha Datta: Primarily dry bulk.

Sheth: Yeah, on dry bulk next year the total deliveries are certainly higher than this year. They are not very alarming, but they are definitely higher than this year. If you ask me whether the current spot market can continue over the next 12 months, personally I would be very surprised if it can, at the same time let me tell you that none of us expected to see the market where it is today. But on balance, my judgment is that you would see a reasonably strong dry bulk market for 2004.

Anirudha Datta: And again do you expect the lead to be taken by the raw material demands from China or is there is any other trigger as well for your expectations?

Sheth: I think China is certainly a factor but you know, China alone is not driving the dry bulk market because, what is happening is that you have seen all commodity prices at very, very high levels. And suddenly people who ran down their inventories to very low levels are all beginning to panic and everybody is trying to stock up as much as possible in anticipation maybe, of other commodity price hikes. At the same time, we are seeing a lot of port congestion taking place because they are suddenly seeing an unprecedented movement, whether it is iron or whether it is steam coal. And again a lot will depend on the price of oil and natural gas next year, because people now can substitute pretty freely electricity generation between fuel, oil, gas, and steam coal.

Anirudha Datta: Right, thank you very much Sir.

Sheth: Thank you.

Moderator: We have our next participant Mr. Mohan from ABN Amro.

Mohan: Sir, most of your dry bulk is on spot? That is the first question. And secondly, historically you balanced out a lot of your tankers on contracts. Given that the market probably is just turning north, would you probably change that strategy for some time to probably contract at a higher level? And lastly, just wanted to get a feel on the asset prices as far as the crude carriers are concerned, and mostly what is the kind of upside, which has happened on your bookings?

Sheth: Yeah. Well basically you know out of the seven dry bulk vessels that we are currently trading, six vessels are on the spot market, and the 7th vessel is committed till about February, March, or may be even April of next year. I do not have the exact number. But six out of the seven vessels are on the spot market.

Mohan: Okay. And in terms of crude tankers, I was asking whether you probably would change over to a more aggressive deployment on spot or you will continue with your strategy on being on long-term contract?

Sheth: Well, at the moment as you know, we were about 50% on contract and 50% spot. I think over the next 3 months, it is possible either we will retain this percentage or we may move up to about somewhere between 50 and 60% cover. I think 40% will continue to remain on spot.

Mohan: Spot, okay. And lastly, on asset prices, as far as the crude carriers are concerned have you seen similar movement upwards?

Sheth: Yes. The asset prices have moved up. I think it is really been driven by the fact that on the new building front, the shipyards are full until 2006. And at the moment due to the price hike of steel in particular, they are very reluctant to quote for 2007. So, as a consequence people sitting on ships at the moment, have in turn, jacked up the prices and buyers are there to pay high prices. So, I would say that across the quarter on the modern side, prices could probably have moved up by somewhere around 5-6%.

Sheth: Thank you.

Moderator: We have a next participant Mr. Jinesh Gandhi from Motiwal Oswal Securities.

Jinesh Gandhi: Sir, can you give your break-even for VLCC. How much it would be, dollars per day?

Sheth: I think it will be somewhere between \$18,000 and \$19,000 per day.

Jinesh Gandhi: Number of crude tankers expected for renewal in third quarter? Any idea, any ballpark number?

Sheth: When you say renewal meaning?

Jinesh Gandhi: Coming out of contract.

Sheth: No. There is nothing that is really coming out of a contract in the third quarter. But as you know we have added to the fleet. And those vessels are currently trading on the spot market.

Jinesh Gandhi: Right, thank you.

Sheth: Thank you.

Rajat Dutta: Thank you Ma'am. Ladies and gentlemen, thank you for participating. And I hope that the event has been useful to you. In case you need any further details or clarifications, please feel free to contact us at 56613104. Thank you.