



**Transcript of the conference call held on September 16, 2005, to discuss the details on restructuring scheme approved by the Board**

**Moderator:** Good evening ladies and gentlemen, welcome to the Great Eastern Shipping conference call. We have with us Mr. Bharat Seth, Deputy Chairman & Managing Director and Mr. Vijay Seth, Managing Director of Great Eastern Shipping Company Limited, to provide an insight on the scheme of demerger of the offshore oilfield services business, approved today by the Board. The first question comes from Mr. Arun Kejriwal from KRIS. Please go ahead Sir.

**Arun:** Demerger is announced on expected lines. Why do you think, the market has not taken it favourably. Is there lack of clarity in understanding?

**Vijay:** I think this is a question, which is very difficult to answer. We have explained the ratios and all the necessary calculations and would be more than happy to run through the same again. Why the market has not perceived it in the right manner is difficult to comment at this stage.

**Arun:** I think that people need to understand the offshore business run by Great Eastern, is different from those run by existing listed companies. What I mean to say is, you have somebody who is purely into drilling, somebody who owns supply vessels, but there is virtually nobody else other than Great who is into supply vessels, rigs and also tugs.

**Vijay:** You are absolutely right, apart from these three streams, we also have the 4<sup>th</sup> revenue stream, which is marine construction and Projects income. The vessel Gal Constructor can be chartered out or can work on projects. The projects refers mainly to activities the Company undertakes to maintain production platforms and installing clamp ons.

**Arun:** What kind of expansion plans would you be looking at going forward?

**Vijay:** The committed expansion programme includes six new building offshore support vessels due for delivery in the next 18 months. Apart from that we are certainly looking at further expansion as we go forward but the details will pan out in the next few months.

**Moderator:** Our next question comes from Mr. Amit Dalal from Amit Dalal Securities. Please proceed Sir.

**Amit:** It has been a bit of surprise that the market has not taken the demerger issue or the demerger news, the way we would have expected in a positive nod. Perhaps you could tell us something about what you see as a growth for both businesses in the next year and that could reflect to a better understanding.

**Bharat:** I think the benefit would be coming more from evaluating the two businesses as they stand. As far as the growth in shipping is concerned it is our judgment that currently that asset valuation is way out to match projected earnings stream. We think that to be investing at today's value, may not be the right decision. In fact, we sold a very modern product tanker recently. So, in our judgment this is probably not the time to be investing in shipping assets. If anything it is the time to be trying to encash some of them because we do believe that today it is more sensible to be long cash and short ships.

**Amit:** Given that I think perhaps the best indicator for the market for the future is a more liberal dividend policy for the shipping company where you have lower Capex and more cash on hand.

**Bharat:** That is not necessarily the case because it is just cash that we think will give us superior returns. If you see one of the things that we have been talking about is that we would like to be investing in assets such that it should give us profitable returns even in the mid-cycle.

Now if we were to invest at today's prices, we think that in a mid-cycle you are going to get a very average return, probably money in the bank will give you a higher return at today's value. So, for example, if today we take a new VLCC, it would cost you about USD 140 million. Now at USD 140 million investments are you going to get a reasonable return? In my judgment No clearly, others might have a

different view. So, I think in shipping at least whoever is trying to grow linearly has only come to grief. So, as an analyst all I can tell you is that don't look at this kind of linear growth.

**Amit:** And for the offshore business we have the figures of the segment revenue and PBIT last year. Can you tell us something about what you expect this year?

**Vijay:** To be honest we don't give forward-looking statements. For the first quarter results profits was a about Rs. 17.5 crores. The offshore part is slightly different, we will invest in assets as we move forward. We will look at expansion both in the case of rigs and in OSVs but always as has been the dictum of the undivided company we will do in the best interest of the shareholders.

**Moderator:** Our next question comes from Mr. Ashi Anand from Prudential ICICI.

**Anand:** what is the NAV of both of the divisions now? As you were mentioning on the shipping business that assets prices are now high. I would assume the same with the case in the offshore business. So, do you think it makes sense actually investing in the offshore business?

**Bharat:** At the end of Quarter 1, the undivided company had net asset value of about Rs.280 a share. If you now take shipping stand-alone on the reduced capital, everything else being equal the NAV would be about Rs.300 a share and in the resultant company the NAV on their capital will be Rs.200 a share.

**Vijay:** As far as the investments in assets of offshore is concerned, we will certainly bear in mind the risk return relationship. We will be cautious and will not do it without taking caution into account.

**Anand:** But based on your experience in business you don't feel assets are expensive on the offshore business?

**Vijay:** It depends, there are some assets, which are expensive, but you must not forget that the earnings are also buoyant. The assets prices have ramped up quite a bit in recent times particularly in the case of drilling rigs. Those are largely the deep water drilling rigs where rates have really gone up. As I said, it cannot be generalized.

**Moderator:** We have next in queue Mr. Ajit Motwani from Sharekhan.

**Ajit:** what are the types of the two rigs?

**Vijay:** The Kedarnath is a slot Jack Up, while Badrinath is a drill barge.

**Ajit:** What is the drilling depth of Kedarnath?

**Vijay:** Upto 300 feet.

**Ajit:** Will it be deployed in October 2005? Is it a spot or a long term charter?

**Vijay:** It is already been committed to ONGC for a 3-year contract at a rate higher than what we had last year, commencing October 2005. It is not at a premium to current spot because these fixtures were done last year.

However, it is at a premium to our last year's day rate but in all the offshore business there is a lag by which the employment takes place. Typically you fix the rate and then you have a long time for mobilization particularly for rigs.

**Ajit:** That means the rate was finalized last year but the contract will start this year, right?

**Vijay:** Correct.

**Ajit:** Will it be close to range of US \$67,000 per day because that was the day rates prevailing maybe say 9 months ago.

**Vijay:** No, those were the day rates for Cantilever jack Ups, Kedarnath is a slot type jack up. So the day rate is in the mid Usd 40,000.

**Ajit:** Can you give us the details of OSVs deployment?

**Vijay:** They are deployed in various parts of the world. They are deployed in the North sea, South Africa, the Middle East, and with Clients like ONGC, Cairn, Hardy etc. Some of them are in spot charter, while other are fixed on long term contract.

**Ajit:** What would be the proportion of the long and spot charters?

**Vijay:** About 50%

**Ajit:** And what could be the tentative day rate if we have to calculate an average day rate for your fleet of 18 OSVs?

**Vijay:** That would not be right way. As the stack of assets is diversified. One needs to categorise as per the asset class even within OSVs.

They are given on contracts on spot as well as on long term charters. You can't compare a Malavia One with a Malavia Ten, because the vessels are totally different in configuration and size. Its all a mixed bag of vessels, it is not a homogenous fleet.

**Ajit:** So, if I had to break down the revenue for your offshore division what will be the contribution of rigs, OSVs, Marine construction and Harbour Tugs. Can you give us the breakup?

**Vijay:** Roughly about 60% of the revenue is from OSV, about 20-25% from rigs and the balance is between harbour tugs and marine construction & projects business.

**Ajit:** Can you give us the delivery schedule for the six OSVs that you are planning to acquire?

**Vijay:** The delivery is scheduled within next 12-18 months. However, due to some modifications, delivery of some vessels might get shifted marginally.

**Ajit:** G E Shipping undivided had around Rs. 1036 crores, which has now been divided- Rs. 50 crores for the offshore and the rest for the shipping company. Is there any possibility of a one-time special dividend from either of the company?

**Vijay:** Those will be discussed at the board level. It would be inappropriate for me to reply on the same.

**Ajit:** Why cash of only Rs. 50 crores was transferred to the offshore division when it contributes around 15% to PBIT?

**Vijay:** That was what the business had on hand as of 31<sup>st</sup> March, 2005.

**Ajit:** Can we see that most of the growth for the offshore will come in '07?

**Vijay:** Yes, the growth will be definitely better in '07 because of the deliveries of OSVs plus the fact that Kedarnath will work for the full-year of '07.

**Ajit:** What was the PAT for the offshore division in 2005?

**Vijay:** About Rs. 110 crores.

**Ajit:** And it was Rs. 17.5 this quarter, on a y-o-y basis what was the growth in PAT for the first quarter?

**Vijay:** There was no growth in PAT because Kedarnath, the Jack up rig was non operational.

**Moderator:** Our next question comes from Ms. Shilpa Krishnan from Kotak Securities.

**Shilpa:** Can you tell us how this cash position stands vis-a-vis the Capex of the offshore division would have to fund over the next two years?

**Vijay:** Cash, as on April 1, 2005 was about Rs. 50 crores while the capex is around USD 75 Mn, around Rs. 340 crores. Of this Rs 340 crores around Rs. 90 crores are already paid in advance. We also generate around Rs. 100 crores free cash flows annually. Our gearing today is close to 0.50 and the expansion will be funded through a mix of internal accruals and debt.

**Moderator:** We have our next participant, Mr. Sheeladutta Dasgupta, from SSKI Investments.

**Dasgupta:** I just wanted to get the understanding of the tax implications of the offshore division.

**Vijay:** Basically the taxation will be on Tonnage Tax basis for OSVs and Harbour tugs, whereas rigs and marine construction activities will come under corporate tax.

**Moderator:** Our next question comes from Mr. Sachin Kasera, from Pioneer.

**Sachin:** What was the EBITDA of the offshore business on the consolidated business in FY05. I believe that there is a difference between the numbers, especially in offshore, between stand-alone and on account of consolidated basis, the PAT for the consolidated entity?

**Vijay:** The EBITDA for offshore for March '05 on stand alone basis was about Rs.153 crores. EBITDA from our subsidiaries would have been about Rs 7-8 crores.

**Sachin:** My second question is regarding the shareholding pattern, I understand it will be almost a mirror in terms of the demerger. What happens to the promoter shareholdin?

**Vijay:** There will be a realignment among the promoters based on ownership and management. It's one of the parts of the scheme.

**Sachin:** But at what price will it be done, any idea?

**Bharat:** The modalities are still to be worked out and it is part of the scheme.

**Sachin:** What happens to the board of directors?

**Vijay:** There will be a Board that will be structured for Great Offshore Limited in time to come. There will be two Boards, two companies and two separate Boards.

**Sachin:** My question is of the shipping business. We all are talking of offshore and of exciting opportunities coming ahead and India having a good future there. Shipping also certainly mentioned that asset prices are very high and returns are not remunerative at the current prices. Is there Something exciting happening in the shipping division as well?

**Bharat:** Yes, we will look at some other areas within shipping, as we said on the conventional assets which is the tankers and dry-bulk which we think we will get better opportunities going forward as compared to today. But would we look at other aspects of shipping, the answer is YES. I don't want to talk about it too much because until

it is all blue print and we get everything penned, we won't discuss.

**Sachin:** But could we say something say like that today's we are only a shipping company could look in more logistic point of view, you could look at full arena of logistics rather than just being confined to shipping?

**Bharat:** I think that is possible, yes.

**Sachin:** On the offshore front, in terms of debt/equity any levels you would be comfortable with?

**Vijay:** Right now to talk beyond 1:1 it is difficult to say. I think it depends on a case to case basis and if the opportunity is there, I don't think that we are restricting ourselves to 1:1. But of course you must also remember that this is a Board matter, the Board of Great Offshore will have to deliberate and take a prudent decision.

**Moderator:** Our next question comes from Mr. Ashi Anand from Prudential ICICI.

**Anand:** Just I wanted the amount of debt which should be on the new offshore business?

**Vijay:** About Rs. 227 crores.

**Anand:** And what would the networth be?

**Vijay:** Rs. 450 crores.

**Anand:** I just wanted understand in terms of funding of expansion plans on this reduced balance sheet.

**Vijay:** We are looking at a combination of necessarily of, new building as well as second hand assets. So that would give us opportunity to grow the balance sheet and then take on that added responsibility on the balance sheet at that point of time.

**Anand:** How much do rigs cost? What would be the Cost of type rigs that you own?

**Vijay:** Well, if you take a 300 feet Cantilever jack up you are looking at around USD140 million plus or minus with a life of at least 30 years, may be more.

In the rig business finance is available for a longer period of time. These are things that Great Offshore would look at it and we will take an appropriate decision on.

**Moderator:** We have our next participant, Mr. Ajit Motwani, from Sharekhan.

**Ajit:** I just wanted to know about deployment of the second drill barge that you have taken.

**Vijay:** Badrinath is working with ONGC under a contract upto September '06 with a possible extension.

**Ajit:** What would be the refurbishment cost for the rig?

**Vijay:** We are getting the final figures, but it will be in the range of about Rs. 60 crores.

**Motwani:** And Sir coming to margins, like if you have 3 revenue streams just you classified at OSV's rigs and others, so I guess that is the margins in the rigs will be more or less close to 55%? Also can you tell us about OSV margins as well?

**Vijay:** Yes, rigs could be more than that also. In case of OSVs as I explained a little while ago, because smaller OSVs will have a margin of maybe about 40%, but a larger OSV could have an OPM of nearly about 60-70%. The combined average for offshore as a division is been anywhere between 45-50%.

**Motwani:** You said that you are looking for some second-hand rigs in the market, but I guess nobody is selling today in the market. Even like some Aban and Jindal looking out some second-hand rigs. Have you found one?

**Vijay:** It would be difficult for us to comment right now till we are sure. But we are examining various opportunities.

**Moderator:** We move on to our next question from Mr. Ajay Shah from LKP Securities.

**Ajay:** How do you think the tonnage tax will help Great Eastern Shipping and what will be the addition to the bottomline in the context of World Trade Organization?

**Bharat:** In particular nothing, in general as far as WTO is concerned it has basically brought in a lot of benefits to those in the container business. Great Eastern is not into containerized trade.

Tonnage Tax last year reduced our tax liability to the extent of Rs.30-40 crores.

**Moderator:** Our next question comes from Mr. Ketan Karani from Kotak Securities.

**Ketan:** I just wanted to know what kind of valuation we should be looking at your rigs. I think they are all 25-30 year old rigs? So when do we scrap them?

**Vijay:** There is nothing like a scrapping in case of rigs. The rig business just depends on whether you can deploy the rig profitably. In case of Kedarnath, we have spent a lot of money to refurbish. This will not only enhance its capabilities but will also give life extension to the hull.

**Ketan:** what is the expected life from these two rigs after refurbishments and what kind of refurbishments are required annually or maybe in two years and what kind of amounts you have spend on the refurbishments, if I can know that?

**Vijay:** Basically the refurbishments should give Kedarnath a life extension of at least 10 years plus. Refurbishments are not carried out on a yearly basis, its more depending on contract basis or depending on specific jobs that they have to do.

The maintenance on a rig is on a continuous 365 days basis. It is all the time there is some work, upgradation, repairs, maintenance that goes on. Every time that we get an opportunity, we just try and upgrade these rigs. That is how we believe that there is value in them and we will continue to employ them.

We believe Badrinath also has a many more years to go. Another aspect, which is also very important in the drilling business, is that the hull maybe relatively old, but the drilling equipment is all the time either upgraded, or changed by the original equipment manufacturer's standards. So the age as such of the hull-hull is not so critical.

**Ketan:** Okay, and what are the age of these two rigs which we have Sir?

**Vijay:** Kedarnath was built in December 1975, around 30 years. This is the first time Kedarnath has gone into a dry-dock. The Badrinath is built in 1973.

**Ketan:** Coming to shipping, just wanted to know of late shipping rates have not been that friendly for shipping companies, whereas asset price were remain high because of the demand for ships. What is the scenario Great Eastern has started selling some ships because they realize that the value is in ships to sell not to run them? What kind of rate decrease you see in the shipping assets and how do you see the rates spanning out for the deployment rates because they have been reasonably very low, if we compare quarter-to-quarter, year-to-year, month-to-month and despite of problems all over the world for oil, the rates don't seem to go up?

**Bharat:** First of all rates are still very high compared to 2002. Last year, we have always said, was an extraordinary year and in our judgment because of the net increase in supply, demand has been pretty robust. But with lot of supply of ships that have already come in and that are likely to come, we think the rates will broadly remain in this level, as far as earnings are concerned.

But asset values at the moment are very high and in our judgment, you should see in the next 12-18 months a correction. What the correction will be is difficult to say but it could be 20-30%.

**Ketan:** Sir, but this should reflect the earnings, which they are supposed to generate?

**Bharat:** Well, actually asset prices do not reflect earnings, all asset prices only reflect what people believe they might earn in the long run. They do not ever reflect the earnings as they are today. Its only an anticipation. All it reflects is the perceived future cash flow, discounted to a value today. Now different people will have a different perception of what the cash flow will be. That is why you all have a buyer and a seller of a ship.

**Ketan:** Okay, 6 months ago, Great Eastern or everybody was aggressive asset buyer. Have you changed your stand? Do

we have a view that Great Eastern is now not an aggressive buyer of assets at these prices?

**Bharat:** Yes, you are right. Great Eastern is not an aggressive buyer of assets at these prices.

**Ketan:** Could we be as an aggressive seller of assets at these prices, to some extent?

**Bharat:** We have sold 3 assets in this financial year and if we see some more opportunities, we may do a few more transactions.

**Ketan:** How do you see the asset prices, as you said it might go down by 25-30% in next 12 months?

**Bharat:** We have already seen a correction; for example, some of you will recollect that we sold our VLCC in Q1 FY06. That value has probably dropped 30% from the time that we sold it. So obviously that was a good deal to book profits. Now in dry-bulk as well if you see, asset prices have probably dropped from the peak, they have dropped somewhere like 25-30%. It is still way above their long-term averages and in our view, you will see a sharper correction next year.

**Moderator:** Our next question comes from Mr. Triyesh Jain from India Infoline.

**Jain:** My question was regarding the funding pattern of the Capex of Rs. 350 crores that you are doing over the next couple of years?

**Vijay:** It will be a combination of internal resources and further debt. In fact we have also paid advances for some of these vessels.

**Moderator:** Our next question comes from Mr. Gaurav Oza from Techno Shares.

**Oza:** Are we going to buy some more rigs to contribute in topline?

**Vijay:** Yes, I think we will certainly examine that and certainly look at the prospects of getting more rigs. But whether they will come immediately or whether they will come after a lag because of the fact that we may go for new

buildings, that will depend on the opportunities that we can get at that point of time.

**Oza:** Okay, since 60% of our revenues are coming from OSVs, don't you think that more revenue if contributed from rigs, would be more beneficial?

**Vijay:** Not exactly. We believe that we must have a basket of assets, I mean we believe that having spreading out our revenue streams is in long-term interest of shareholders.

**Oza:** And coming back to shipping, are we possessing any threat from containerization in case of dry-bulk?

**Bharat:** No.

**Oza:** Sir, can you throw some light on that?

**Bharat:** If you look at the total volume of the dry-bulk trade that runs into something like 1.3-1.4 billion tons. The amount of dry-bulk trade that has moved into containerization will probably be not even a percent. We have seen it happen in sugar, we have seen some of it happen in fertilizer, but on the margin it is a very insignificant number.

**Oza:** Is GES going for containerization?

**Bharat:** No, we feel there too the asset prices are very high, like in tankers and in dry-bulk. So we think this is not the right time to invest unless you are already a player and we are not a player. Currently I don't think that Great Eastern is ever going to get into main line container business because that requires vast sums of money and as you know one company in the world is now controlling 30-40%, so we clearly don't have those kind of deep pockets.

**Oza:** Sir can you throw some lights on rates of depreciation for rigs and VLCCs?

**Bharat:** On the VLCCs we operate on a straight line basis of 5 percent per annum on a newer ship and if the vessel is old or if it is more than 15 years of age, then we just do it on whatever is the residual life. We do it over 23 years of single-hulls.

**Oza:** What about rigs?

**Vijay:** Historically, the rigs that we had bought will take it over 7 years. But if we did a new rig we will have to just take a view on what we will have to do. We may take a longer period.

**Moderator:** We have Mr. Prakhar Sharma from CLSA.

**Sharma:** My question is regarding the offshore business. What we see from the financial year-2005 annual reports is that assets in most of the segments are employed to plus 85-88% of their capacity. What I would like to know is what is the rule to which the current asset base of the company can be employed to what extent? So to get a hint that until new assets are acquired what kind of revenue growth this segment could see?

**Vijay:** Well, I guess it also gets influenced by the day rate. After all it's the value of P into Q, so if P goes up then your Q will also go up. Though Q may remain similar plus the fact that we believe that we can deploy these assets more effectively.

**Sharma:** In the offshore vessels services, what I would like to know is what are the key determinants of the revenues in this stream, besides the drilling construction activity picks up? So how do the rates move? Just because deployment goes up, rates keep moving?

**Vijay:** Yes, also the specifications of each vessel is important. If there is a specific requirement of a specific type of rigs, then nothing can substitute it. If you take a very sophisticated offshore support vessel it could have as many as 10-12 functions. It could be a bulk-carrier, it could be a tanker, it could be a chemical tanker or container vessel, it could be a fire-fighting, DP, pollution control, anchor-handling, towing.

**Sharma:** In the segmental data, we see that liabilities, from the annual report I am saying, the total liability is at around Rs. 2400 crores.

**Vijay:** The total debt as we speak was as of March '05 was about Rs. 2080 crores for the Company. The number that you are referring to is on consolidated basis.

**Moderator:** We have our next participant, Mr. Nitin Shrikumar from Mata Securities.

**Nitin:** What is the net worth of shipping business? First one relates to the net worth of the shipping division alone, and you have given me the offshore division around 450 crores.

**Bharat:** As on 31<sup>st</sup> March '05, it was Rs 1742 crores

**Nitin:** Can you just tell me the EPS of both the divisions in terms of FY-05 earnings?

**Bharat:** On the revised capital I have got it before tax. As far as Great Eastern Shipping is concerned it will be Rs.41.57 a share and offshore will be just under Rs.32 a share, this is before tax.

**Nitin:** And I think the contribution was around 20% from the offshore division, this is your profit before tax?

**Vijay:** Yes.

**Moderator:** We have Mr. Anand Gupta from Batliwala & Karani Securities.

**Gupta:** Just wanted to know about asset prices. What is your view on the likely ROCE on incremental basis. Getting into business, buying new assets at these prices, what is the ROCE you think one can make?

**Bharat:** I think in shipping today ROCE would probably be somewhere in the region of maybe 5-7% depending on what assumptions you make especially because ours is such a volatile business. If you just take the forward curve, you see virtually in every asset class the forward curve is in backward direction. If you just take the forward curve as an indication, then it is above 5-6%.

**Gupta:** Right, and on the offshore side Sir?

**Vijay:** Offshore should be more than 10%, but it would again dependent, on various factors.

**Gupta:** Right Sir, and the correction which is likely in your view and the consensus among many people would reflect directly on the ROCE, right Sir?

**Bharat:** Yes, it would reflect on the ROCE on the vessels which are on the spot market, because remember that both the businesses have a certain amount of cover, that has been taken place. But remember that in your books what you are reflecting is on book value and not the market value. So it does not impact your ROCE as far as your book is concerned.

**Gupta:** Got it Sir, I was talking about the incremental ROCE on the new building.

**Bharat:** Yes that is right. So if you take your first question, if we were to buy an asset today and if you just take the forward curve today it would be somewhere in the region of 5-6%. And that is the one reason why I said earlier we are a bit reluctant to expand at this price.

**Gupta:** Yeah, sure Sir. And what would be the broad mix between spot and long as on date?

**Bharat:** It is approximately 55% would be on period and about 45% would be spot in case of entire shipping fleet.

**Moderator:** Next in queue, we have Mr. Vikram Suryavanshi from Karvy Stock Broking.

**Vikram:** I wanted to know whether there is any in-charting vessels currently, shipping particularly?

**Bharat:** Yes, we had some in-charting activity, but at the moment the in-charting activity is being done in our wholly owned subsidiary. Inchartered ships include 2 crude tankers, 4 product tankers. Some are in a joint venture with other traders or charterers. On a consolidated basis we will reflect the profit or the loss as the case maybe. In the case of offshore there are 2 PSVs but it is more or less on a back-to-back basis.

**Moderator:** We have Mr. Vishal from Equity Master.

**Vishal:** What kind of succession plan both for the offshore business and the shipping business in future?

**Vijay:** I think both the businesses are very professionally managed. We have in both the businesses a President, Vice-President, and people who have decision-making authority at various levels.

**Moderator:** We have Mr. Anand Gupta from B&K Securities.

**Gupta:** Yeah, Sir just to add-on the ROCE on the new building prices, can you just give us a view on the second-hand prices as of now? Are they as skewed very high as new prices?

**Bharat:** Yeah, I mean basically at the modern end of the curve, if you take the modern ship, they tend to be very closely correlated to the new building prices. So what happens is that it is the current strong new building prices that are keeping the modern prices of ships very high. Ofcourse, it has a much less impact on the older ships, you know like 15-25 years of age.

**Gupta:** Sir, would it be right to say then ROCE would not matter much because my earnings would be lower if I have an older ship and would have maintenance cost. The ROCE even if I buy an older vessel would remain more or less plus minus 1% same, Sir.

**Bharat:** Yes, broadly speaking, because what would happen is if you buy an older vessel today, one it would have a higher operating cost than a brand new ship and two you would also have in a sense significantly higher depreciation charge. And as you rightly pointed out even the earnings will be lower. So combination of these 3 factors will not give you a significantly different ROCE.

**Moderator:** We have Mr. Vishal from Equity Master.

**Vishal:** what are your customer saying about the impact of high-crude price in the global economy, be it from the manufacturing sector or raw material suppliers like iron ores? Are they anticipating some slow down in the future?

**Bharat:** Customers are always anticipating a slow down because they are trying to beat down the freight rate. But the point is that so far there is no direct evidence that the oil prices have impacted the demand in any negative

fashion. Although it is our belief, that if these oil prices sustain at these higher levels, we think that it will reflect a slow down in oil demand growth. It will still mean growth, particularly in countries like India and China, but we do believe that it will slow down the rate of growth. We are already seeing a pretty slight growth in the United States, if you just take January to today's number. So a lot will depend on where oil settles, as you know there are two very divergent views on oil. There is one view which says that oil will probably in 2006 continue in excess of \$60 a barrel and there is another view which says that you might see oil trading somewhere in the 40s.

**Vishal:** In the hike in the crude prices, what according to you is the rise due to speculation and what remaining is the demand factor?

**Bharat:** We obviously have no empirical data to give you a precise number, but if you talk to the so called financial market analysts, they think that there is something like \$10-15 per barrel of oil that can be attributed to participation of various Hedge Funds etc.

**Moderator:** As there are no more questions, I would now like to hand over the conference to Mr. Rajat Dutta. Please go ahead Sir.

**Dutta:** Thank you. Ladies and gentlemen, this concludes today's conference call for the investors and analysts. Thank you for your participation. We shall be glad to answer any of your questions in this regard, which could not be dealt with today. Kindly send us an e-mail. The transcript of the same will be uploaded on the website. Thank you once again for participating.