



TRANSCRIPT OF Q2 FY 2006-07 CONFERENCE CALL

Moderator: Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to the GE Shipping's conference call on declaration of its unaudited financial results for the second quarter and half-year ended September 30th 2006.

Balan Wasudeo: Thank you very much. Good evening friends. Balan here, very happy to share with you the performance of the company for the quarter ended September 30th 2006. I am sure you have seen the results and Press Release. I am very happy to tell you that the company's performance continues to be strong this quarter compared to the previous quarter which you would recollect gentlemen was equally a strong quarter, that is the quarter ended September 2005.

Net profit has gone up by about 51% from Rs 156 crores to Rs 235 crores and if you exclude the impact on the gain on sale of ships the increase is as much as 62%. You would have noticed in the Press Release that during this quarter as compared to the previous period's quarter there has been a 4% decrease in the net revenue days, which has come down from 3,896 days to 3,774 days and there is a small decrease in the tonnage. It has come down to 2.77 million dwt. In spite of shrinkage in the capacity the increase of 51% is at the back of 3 major developments. #1 is strong earnings and yield from the tanker segment. #2.a substantial drop in the repairs and maintenance cost which is visible in line 4b of the financial statement. #3 there has been an almost two fold increase in the other income from interest and dividend.

Now line-by-line explanations to the performance. Total income for operations grew by 25% from Rs 417 crores to Rs 522 crores. The number of ships that spent time in the spot market and voyage charter is substantially higher. There is a marginal increase in the gain of sale of ships from Rs 34 crores to Rs 38 crores. There has been a very smart increase in the interest and dividend income from Rs 15 crores to Rs 28 crores mostly because of very sharp increase in the interest rates earned on various money market instruments, thereby the total income increased by 26% from Rs 471 crores to Rs 593 crores.

On the expense side of the 4 external items 3 are showing a small de-growth. The only increase is in the shape of direct operating cost from Rs 90 crores to Rs 143 crores is directly in relation to the increase in the voyage charter.

Direct operative expenses are mostly related to the voyage charters and that has increased by 34% during this quarter. Otherwise the overall total expenditure grew by 20% only as compared to the top line increase of 25%. Hence as a result of a sharp improvement in bottom and top line and a lesser than commensurate increase in total expenditure, the operating margin of the company improved from 48% to 51% during the quarter as compared to the prior period's quarter, and the operating profits that is PBIDT increased by 31%.

Interest cost saw a marginal increase of about 10% to 15% from Rs 24 crores to Rs 26 crores entirely due to hardening of interest rates in the international markets as most of the borrowings are in dollar terms.



Therefore we come to gross profit after interest which has increased by 32%, there is a small decrease in depreciation because as you have been noticing in the last four quarters the number of ships sold in the last 4 quarters about 6, 7 vessels we have sold therefore the fixed asset block has come down and therefore the depreciation charge has come down from Rs 70 crores to Rs 64 crores.

The taxation levels have been broadly in line with the profit levels, not very significantly different and therefore the net profit increased from Rs 156 crores to Rs 235 crores an increase of 51% and a commensurate increase in earnings per share in all other fundamentals. With that gentleman I come to the end of the presentation, I had over to Rajat Dutta.

Rajat Dutta: Thank you Sir for a comprehensive line-by-line commentary on the financials of the company. I now initiate the question and answer session. Kindly restrict your questions to the business performance related to Q2 and also to the future performance. Can we start the question and answer session?

Shiladitiya: Good evening everybody. Congratulations sir on an excellent quarter. I wanted to get a sense of what are the in-chartering days for the quarter and the corresponding number for the quarter last year?

Bharat Sheth: The total revenue days that we have for Q2 of '07 was 3,744 as compared to 3,896 days for Q2 of '06. If you take the total number of in-chartering days, it is 194 days for Q2 of '07 as opposed to 58 days of Q2 of '06.

Shiladitiya: What's happening in the product tankers and the dry bulk tankers because we saw significant strength in the dry bulk in the Baltic dry index and despite that our earnings were flat what could be the reason for this?

Bharat Sheth: Actually if you see the time from when the dry bulk market started picking up, it was towards the end of the quarter, and therefore the improved earnings on the dry bulk will reflect in Q3 of '07. The overall total revenue in dry bulk was lower because we had lower revenue days. If you take a break up we had 1,050 revenue days in dry bulk in Q2 of '06 as opposed to 954 days in Q2 of '07. As far as product tankers are concerned, the earnings in Q3 in all probability will be lower than the earnings in Q2 of '07.

Shiladitiya: Right sir. Also sir if you could help us out with the consolidated numbers because we have the numbers for the total entity.

Bharat Sheth: As you know Great Offshore Limited declared a profit of Rs 38.79 crores and Great Eastern Shipping's was Rs 235.45 crores, adds up to a total profit Rs 274.24 crores. On a total income of Rs 127.96 crores for GOL and Rs 593.20 crores for Great Eastern's. But these are two different companies since 1st April 2005 which please note.

Moderator: Next question comes from Mr. Sharid of Birla Sunlife Asset Management.

Sharid: Hello. Sir I just wanted to get your view on how the asset prices have been moving maybe in NAV terms?



Bharat Sheth: The asset prices actually over the quarter had moved up quite significantly. They have moved up much more in dry bulk as compared to that in tankers, and as compared to the end of Q2 of last year to the end of Q2 of this year across different asset classes. On an average tankers have moved up by about 2% over the 12-month period whereas dry bulk values have moved up about 17%. In terms of net asset value Great Eastern Shipping's net asset value is slightly in excess of Rs. 400 a share. (Note this is on an equity of Rs 152 crores)

Moderator: Our next question comes from Mr. Anish of ABN Amro.

Anish: I think many of my questions are answered, but can I quiz you on a little more on the off shore business is it okay?

Bharat Sheth: As far as the subsidiary of Great Eastern's Greatship (I) Ltd is concerned that's fine otherwise Anish it is difficult for us to talk as far as Great offshore is concerned.

Anish: Okay just a simple one, you gave us the Q2 numbers could you also give us the first half revenue and PAT for Great Offshore.

Bharat Sheth: Yeah, the total income for the first half of Great Offshore is Rs 243.83 crores and the net profit is Rs 73.90 crores.

Anish: Okay and what would be the NAV of Great Offshore?

Bharat Sheth: We don't have the NAV number of the Great Offshore. Whatever we are sharing with you is what is out in public domain.

Moderator: Our next question comes from Mr. Hemant Patel of Enam Securities.

Hemant Patel: Hello Mr. Seth, just a question on your asset strategy at this particular stage and how do we see the dead weight tonnage going ahead?

Bharat Sheth: As you know we have 9 new building product tankers that are due for delivery sometime between 2007 and 2009 and in addition we have 2 second hand acquisitions. one Suezmax tanker which is due for delivery later in Q3 and Capesize dry bulk carrier for delivery in Q4 of this financial year. Looking at where the asset values are at the moment it is unlikely that we will acquire anything at least until March 2007. What we will do till March 2008 is a little too premature at this stage.

Hemant Patel: Could we have just about what you are planning to do in terms of off shore post de-merger?

Bharat Sheth: We are in the process of building up a stack of assets in our wholly owned subsidiary, Greatship (India) Ltd. that will be the company through which offshore expansion will take place. At the moment we have a committed capital expenditure of about USD 380 million, which is a combination of 1 rig and 10 boats.

Hemant Patel: When is the delivery expected for the rig and what is the rig proportion of this USD 380 million?



Bharat Sheth: About 170 million dollar is the rig and the rest of it for boats. The break up is we have 1 boat in the water just now and 1 more boat is due in this financial year. We then have 3 boats which are due in the financial year 2008, and we then have 4 boats due in financial year 2009, 2 boats in the financial 2010 and the rig from Keppel Fels Ltd will also come in the financial year 2010.

Moderator: Next question comes from Mr. Ramchander of BNP Paribas.

Ramchander: I didn't quite get the figure of NAV for Great Eastern Shipping? What is the outlook of freight rates going forward in to the winter months?

Bharat Sheth: The NAV question; is slightly in excess of Rs. 400 a share.

Currently the tanker rates are very weak and I think it is just basically something that was in a way expected because we had a particularly strong summer quarter. Traditionally, as you know, markets are very soft in the periods from July, August, September and they normally pick up from October onwards. But this year around in anticipation of potential high crude oil prices and in anticipation of particularly bad weather that we saw in the previous 2 years where there were major disruption due to the hurricanes, a lot of countries built up inventories and as a consequence today people are drawing from their inventories as opposed to importing oil and therefore, the current tanker markets are particularly soft both for crude oil as well as for product tankers. Actually in relative terms it is even softer for products than it is for crude.

As far as dry bulk is concerned, the markets are stronger just at the moment than they were in Q2 and it appears that the dry bulk market will remain strong for the next couple of quarters at least. Our current 2007 view is that the tanker markets will remain weak for most of Q3, that's in October, November and December 2006 with every possibility of a pick up for the quarter January to March.

Moderator: Next question comes from Sachin Kasera of Pioneer.

Sachin Kasera: Good afternoon sir and congratulations on the excellent results. You just now mentioned that you do not expect a very strong tanker market in the short term and from what my understanding regarding the overall outlook for the oil demand as well as the supply coming in the market in the next few quarters the medium ton scenario does not look to be very rosy. While dry bulk looks to be better term, but I think in terms of capacity GES is much lower when compared to the tanker market, so in such a scenario what is the company's strategy in the medium term in terms of being able to deliver a YOY growth for say the next 5 to 6 quarters?

Bharat Sheth: First it is important to understand that we are in a business, which is hugely volatile. If you look at the headline figures and if you were to just travel back in time, 12 months ago or 24 months ago, you would have also seen very strong supply numbers in case of tankers but the market surprised everyone with the upside. Because the shipping freight rates are being determined not by the headline picture of just pure supply and demand but clearly by disruption in the supply chain.

For example if you take tankers, what happened in quarter 2, the just concluded quarter, it clearly astounded everybody with the strength of the market. And that was again driven by disruption with one of the big oil companies in Prudhoe Bay, problems in West



Africa, stronger ton-mile demand emanating out of China and these are some of the factors determining the freight rate. It is not just being determined by what is the supply and the demand equation. So I think it is a little too premature to conclude that the tanker market scenario is going to be bleak if you take for the next 5 or 6 quarters view.

Sachin Kasera: Sir, assuming that what you are saying is true but the fact is that most of the factors are unforeseen factors and this would mean that the long-term charter rates that were negotiated would not factor in these factors, so as a strategy we would like to keep more and more tonnage on the spot market?

Bharat Sheth: As you know, in Great Eastern we have always kept a balance and one of the reasons why we have kept a balance is precisely due to the uncertainty and due to the volatility of our markets and therefore going forward I do see Great Eastern broadly remaining in a zone of having about somewhere between 40% to 50% exposure to the spot market and the rest to be covered on period charters.

Asset values continue to remain extremely strong, and if you see where tanker values are today, they are at a higher point that they have ever been. So there is some level of confidence being reflected clearly by those people who are putting dollars on the table and acquiring ships. Now it is debatable on whether the average earning is going to be higher or lower than 2006 for the next 12 months. I think it's early days, clearly 2006 itself has surprised everybody on the upside if you had asked any of us 2 quarters ago could we have expected these kind of earnings in the summer of 2006, the answer clearly would have. So, I think this is a business that going forward because supply-demand remains fairly tightly balanced and because the world is still governed by geo political risks, across the East as well as the West, we think that what will determine the freight market going forward is uncertainty and sentiment.

Sachin Kasera: Sir, regarding dry bulk can we envisage a scenario while going forward the proportion of dry bulk in our overall tonnage you would like to increase or would you like to keep it at more or less the current level?

Bharat Sheth: I suspect that going forward if you see over the next 2 to 3 years the proportion on dry bulk tonnage relative to the position today will increase. Tankers will still be a dominant part of the Great Eastern business but relative to where we are today the percentage of dry bulk will increase. Now it is close to 11% in tonnage terms, which is expected to be around 20-25% in future.

Moderator: Next is a follow up question from Mr. Anish of ABN Amro.

Anish: Right, just if it is possible to get some clarity on listing time frame, maybe I missed it in your press releases on the time line for the process going ahead on this de-merger?

Jayesh Trivedi: The time line is from 8th November onwards, the trading in the GE Shipping shares would stop. 15th and 16th November is book closure. The allotment of shares is going to be on the 16th of November and as soon as the allotment is done, and the credits have been given to the depository, we will make an application for listing, which should be there in a week's time thereafter. So I am expecting the listing of GE Shipping shares at least by third week of November somewhere around 22nd and 23rd November. According to me, we should at least take a months' time.



Moderator: Our next question comes from Mr. Ravi Shenoy of Birla Sunlife Insurance.

Ravi Shenoy: Good evening sir. Could we get some clarity on the balance sheet size as well as the cash you would have in the company as of now?

Bharat Sheth: Great Eastern will have a balance sheet size in the region of Rs 4,500 crores by March 2007 and cash broadly in the region of Rs 1,500 crores and debt of around Rs 1800 crores.

Ravi Shenoy: Could we also get some clarity on the CAPEX that we are doing? You gave some clarity on the offshore site but...

Bharat Sheth: We have a total committed expense of about USD 506 million dollars in shipping business of which USD 71 million dollars has already been funded, so we need to fund another USD 435 million dollars between now and 2009.

Moderator: Next is a follow up question from Mr. Sachin Kasera of Pioneer

Sachin Kasera: This whole de-merger process. I just wanted to understand if you have any indication whether after re-listing you would continue to be a part of the futures and options segment or we'll have to have a fresh application for that?

Jayesh Trivedi: The NSE will decide whether to bring it back into the F&O segment or not

Rajat Dutta: Sachin just to clarify the F&O expires as of the closing as of the 7th November as Mr. Jayesh Trivedi just mentioned. Future qualification in F&O is as per the eligibility criteria of NSE.

Moderator: Next question comes from Mr. Rithesh Rathod of UTI Mutual Fund.

Rithesh Rathod: You said a CAPEX of USD 506 million dollars, is it for including offshore or excluding offshore?

Bharat Sheth: No excluding Greatship (India) Limited.

Rithesh Rathod: Okay in case of NAV, Rs. 400 per share have you considered something for offshore?

Bharat Sheth: No. This is purely the shipping business. We have taken into consideration the premium on the order book as we have mark-to-marketed the order book to what we believe are realizable values today.

Moderator: Next is a follow-up question by Mr. Shiladitiya of SSKI.

Shiladitiya: I just wanted to get a sense of on the crude segment, the product segment and the dry bulk segment how is the spot and voyage mix?

Bharat Sheth: As far as the crude is concerned, it again depends on the various asset classes. So broadly speaking on the crude if you just take Q3, we have somewhere in



the region of 60% to 70% of the business already written for Q3. I think as far as the product is concerned it is about 50%. With regard to dry bulk I would say it's again somewhere in the region of 50% to 55%.

Shiladitya: Right sir. And sir in this quarter what was the amount of capacity that came up for renewal on the crude side, for the period fixture?

Bharat Sheth: During the quarter actually we have only fixed two period fixtures. But One of them the fixture will commence in Q4 of this financial year and so we have committed something going forward where the ship's renewal comes up sometime in the month of December 2006.

During the course of the year, we have done some renewals, therefore the period business in comparison to the period business of Q2 '06 is much better.

Moderator: Next question comes from Mr. Arpan Mukherjee, Reuters.

Arpan Mukherjee: I just wanted a small clarification on the listing of Great offshore shares. You said that it will be listed one month thereafter from third week of November 2006, so will it be okay to say that it will be end of December, end of this year?

Jayesh Trivedi: Yeah, this is tentative timeframe basically because it is dependent on SEBI's clearance

Arpan Mukherjee: Another question is on the CAPEX expenditure, which you just mentioned. USD 380 million I believe is for the offshore part.

Bharat Sheth: Yes USD 380 million is for Greatship (India) Ltd spread over the next 3 calendar year i.e. 2007, 2008, and 2009.

Arpan Mukherjee: Is this included in the USD 506 million?

Bharat Sheth: No. USD 506 million is for shipping which is again spread over 3 calendar years that is 2007, 2008, and 2009 i.e. 9 product tankers, one modern Suezmax and one modern Capesize bulk carriers.

Arpan Mukherjee: And how is the funding done?

Bharat Sheth: As far as the shipping portfolio is concerned, out of USD 506 million USD 71 million has been funded, and USD 435 million needs to be funded over the period of 3 years. And as far as the offshore assets are concerned USD 35 million has already been funded out of the USD 380 million.

Arpan Mukherjee: It was funded from internal accruals?

Bharat Sheth: Yes, absolutely.

Moderator: Next is a follow up question from Mr. Ramchander of BNP Paribas.

Ramchander: Mr. Bharat Sheth, you did mention that the third quarter is likely to be sort



of weak as far as the tankers are concerned. Are any major renewals coming up for fixing charter during this period?

Bharat Sheth: No. none. The ships, which are currently in the spot market, will keep coming up. That you basically keep pricing risks every 30 to 45 days. But nothing is coming up for contract renewal.

Moderator: Next question comes from Mr. Vikram of Karvy Stock Broking.

Vikram: I want to know about the rig that you have ordered. What kind of earnings do similar kind of rig record today?

Bharat Sheth: First of all let me clarify the rig will be delivered in end of 2009 and therefore what the market will be at that time is difficult to envisage today. But if the rig was available today, a 3-year rate would probably in excess of USD 2,00,000/ a day

Vikram: For the same period what was the earning for last year?

Bharat Sheth: Well may be last year these rigs would have been getting somewhere in the region of USD 150,000, 160,000 dollars / a day?

Moderator: Next is a follow up question by Mr. Ravi Shenoy of Birla Sunlife Insurance.

Ravi Shenoy: I just wanted to understand your strategy on the in-chartering side. We have seen strong growth in the current quarter; could one expect that to continue?

Bharat Sheth: We in-chartered 3 ships which have been chartered for a period of 3 years of which we are now into the first year, So at the end of March '07 we will still have 2 years left on those 3 assets and 2 of the assets have been chartered for a period of 1 year and that will lapse sometime during FY08.

We continuously keep on looking for opportunities to be able to in-charter ships but we would only like to in-charter when we believe that the risk reward ratio is favorable. So it is not as if we are just going to build up volume irrespective of market conditions.

Ravi Shenoy: The in-chartering would be on the tanker side or the dry bulk side?

Bharat Sheth: Currently, out of the 5 ships that we have in-chartered, 2 are on the drybulk side, which are for the duration of 3 years and 3 are on the tanker side of which 2 are crude oil tankers and 1 is a product tanker.

Ravi Shenoy: Okay. Secondly sir, we talked about strong asset prices would we be looking at selling assets at these levels?

Bharat Sheth: Well, as the CFO mentioned a little earlier, we already sold a fair bit, but the answer to your question is yes. We at Great Eastern are continuously evaluating opportunities, whether they be to buy ships or whether they be to sell ships. And it is perfectly possible that we may sell some more.

Ravi Shenoy: Okay. Lastly, a question on the global side sir. We understand there will be a scrapping of single hull ships before FY2010, what would be the understanding as



to when ships will be going for scrapping?

Bharat Sheth: You know at the moment it is difficult to tell because we are all aware there are certain relaxation in the regulations laid down by the IMO and it is therefore possible with that certain countries will permit single hull vessels to continue to trade beyond 2010. So I don't think until we really approach 2010 we have a real fix on the number of vessels that will be forced out of the business and how many single hull vessels will be traded. I think it is simply too early in the day to comment.

Moderator: Next question comes from Mr. Lokesh Garg of Kotak Securities.

Lokesh Garg: Hi good afternoon sir. Sir out of these 9 product tankers that company has placed orders for, could you just indicate broad outline of the delivery schedules?

Bharat Sheth: We've got in this financial year; to March 2007 we have probably 2 vessels because 1 is due in March but whether it slips or not I don't have an answer just now. And then we have got 3 ships due next year that is for the year ending March 2008. And then we have 2 more ships for the year ending 2009. And then in the early part of the financial year of 2010, we have 2 more tankers.

Lokesh Garg: Okay. Sir another question is in the NAV that you have calculated for your fleet, you have said that you have also included mark-to-market of the vessels which are currently on order and are not in the fleet as of yet. What is the component that is being contributed by this mark-to-marketing of the order book?

Bharat Sheth: About around USD 90 million dollars on per share basis in rupees it would be Rs.27

Moderator: Next question is a follow up question by Mr. Hemant Patel of Enam Securities.

Hemant Patel: Hello Mr. Seth just to pick up a little bit more on the net asset value, I wanted to check with you what is the current second hand prices for a 10-year vessel compared to a new building? Is it still going at a marginal discount?

Bharat Sheth: In a tanker there are many categories, but let me just give you a VLCC for example, because that is the largest sized-tanker and then you can turn around it. Today, if you are to buy a 96 built VLCC you would probably have to pay somewhere in the region of USD 105 to 110 million. And then you will have to depend on the survey condition, the condition of the vessel etc. etc. If you were to contract for a VLCC today, at a Korean yard, you will probably pay in excess of a USD 120 million and that will be for a delivery in 2010.

Hemant Patel: All right. Just one more thing about the asset pricing you mentioned earlier saying that it is at it's the peak at this particular moment.

Bharat Sheth: Just a second, I have not said peak...

Hemant Patel: You've said it is quite high.

Bharat Sheth: That's right. I've not said peak because that I can't determine. That the



market will decide.

Hemant Patel: All right. Is it because that there has been less scrapping and less deliveries on the supply side or am I missing something over here?

Bharat Sheth: No, there has been a lot of supply that has come into the market and there has been very little scrapping that has actually taken place because of very strong earnings and in the shipping business so long as you really cover your day-to-day operations people will keep trading ships.

I think what has really happened is a combination of the facts that shipyards are completely full almost until 2010. In fact we understand that yards in Japan are now quoting for delivery slots of 2011. So, today people with modern tonnage are very reluctant to sell. Secondly, there has been a huge impact of what I would call the wealth effect, because this is a business where the markets have been very favorable for the last 3 to 3 ½ years. People have made significant amounts of cash and I think there is a huge liquidity effect where there is a lot of money chasing very few sellers. I think that is the reason why asset values are going up all the time. So you've got this very odd situation particularly in tankers if you take the forward curve earnings are clearly softer and yet the asset values are higher.

Moderator: Next is a follow-up question by Mr. Sharid of Birla Sunlife Asset Management.

Sharid: Sir, I just want to confirm. You had mentioned a CAPEX of about USD 506 million in shipping and USD 380 million dollars in Greatship (India) Ltd over a period of 3 years. Touchwood our cash flow remaining so strong do you plan to leverage your balance sheet more effectively? What exactly will be your plans to use your balance sheet more effectively?

Bharat Sheth: I think we are using our balance sheet pretty effectively at the moment. We want to clearly be in a position, where we are in a sense under leveraged for when asset values come down, we do not wish to be "excessively" leveraged, and I use the word excessively in inverted commas because everybody has a different definition of the word excessive. But we clearly would like to be in a position where we are an under leveraged company for when asset values come down so that we can aggressively expand at that time. To be aggressively expanding today in our judgment would be a mistake.

Sharid: Okay. We were also tracking that lots of buying by promoters has been happening in Great Eastern stock. Do you think promoters are in a better place to increase their holding through a buy-back or something?

Bharat Sheth: Clearly promoters have been buying. So as far as buy-backs are concerned that is always an option that is available to the company. I don't think this item has been discussed or deliberated at the Board meeting and therefore it is too premature to discuss.

Sharid: Okay. Finally, on the offshore side for the rig as well as the vessels which are going to be delivered has there been any contract, which has already been done for that particular...?



Bharat Sheth: No. The only one vessel that we currently have is trading on the spot market in North Sea. She is going to have an effective cover for about 5 months starting in November 2006. But the assets, which are yet to be delivered, have been offered for certain businesses but we have not got the outcome of that business yet.

Sharid: When do you think all these assets will be put on contract sir?

Bharat Sheth: I think it is difficult to say because we are continuously offering these assets for businesses as and when some of the tenders come up not only in India but internationally as well, but when something will actually culminate is impossible to tell.

Sharid: Okay, but over the next 3, 4 quarters can we expect more news flows on this cover?

Bharat Sheth: No, as I was saying it is something that we continuously try, obviously, the closer you come to delivery, logically the greater is the probability that the cover will be in place.

Moderator: Next question is from Ms. Parul Patel from StratCap Securities.

Parul Patel: Hello, good evening sir, just one question. You just mentioned about the global shipyards operating at full capacity for Greatship (India) Ltd for boats aren't you looking at Indian shipyards?

Bharat Sheth: Yes we are looking at Indian yards as well. What we do is we are trying to balance pricing to get a delivery slot. We are continuously talking to Indian yards.

Parul Patel: In terms of their capability, you don't see any concern in that regard?

Bharat Sheth: No, absolutely no concerns as far as the smaller boats are concerned. Nor do we have concerns on some kinds of ships. But as you know Indian yards are not building every spectrum of asset class as far as ships are concerned but what they do build we do not have a concern.

Moderator: Next is a follow up question by Mr. Vikram of Karvy Stock Broking.

Vikram: Sir I just want to clarification regarding whether the boats and rigs will get benefit of tonnages tax?

Bharat Sheth: The rig will not, currently the boats will.

Moderator: Next is a follow up question from Mr. Sachin of Pioneer.

Sachin Kasera: Yeah sir, just wanted to understand broadly in terms of your take on China as far as the dry bulk market is concerned, in terms of where do you see the iron ore demand being driven, how much by China, I also understand that China has become a big exporter of steel so where do you see the overall impact?

Bharat Sheth: We think that China will continue to require large quantities of iron ore. I think what is equally interesting is that if you take the 3 large iron ore suppliers, they are



all in an expansion mode and the bulk of this expansion is coming through in 2008. I think it stands to reason that if the 3 of the largest iron ore mine owners in the world are in an expansion mode, they are expanding because they believe that they will be able to sell this iron ore. Therefore, we draw strength from that fact that the trade in iron ore will continue to expand. But, the pace of this is impossible to determine, but the trend clearly is that this is a trade that is in all probability is going to expand.

As far as the exports of steel products out of China is concerned, the Chinese government at the moment is trying to reduce the amount of subsidy that they are offering their exporters, because they appear that they are not very keen to encourage too much of the Chinese steel being exported into the markets. But if this export does continue and it has continued, it has grown in fact in this year compared to last year, it is good for ton mile demand because if you see one of the biggest markets which is using this Chinese steel is the United States and that has significantly added to the ton mile demand and I would say it's probably one of the reasons why the dry bulk market has been strong towards the end of quarter 2 and has continued it's strength moving into quarter 3.

Sachin Kasera: So when you have stated that you expect the dry bulk market to remain pretty steady going forward in the short-term, medium-term it is primarily drawing from the fact that you expect the Chinese steel exports to continue to remain there?

Bharat Sheth: You cannot take any parameter in isolation like Chinese steel exports because if you look at it, globally there is almost 1.2 or 1.3 billion tons and Chinese exports are probably 30 or 40 million tons. So you cannot say that Chinese exports in the margin of 4 or 5 million tons can make or break a market. But overall every ton-mile demand whether it is through exports of Chinese steel or whether it is through imports of iron ore is obviously going to help the market. The second thing is that in 2007, the quantum of supply into the market is in relative terms going to be lower than 2006.

Sachin Kasera: Okay. I just understand sir in the iron ore thing do you also expect some changes in terms of the trade patterns because of which the ton mile demand could be much higher than the growth in the current iron ore trend pattern.

Bharat Sheth: The joker in the pack here is obviously going to be exports of iron from India. I think that you are reading the same news item that I am reading which is that there is a talk about India wanting to curtail its iron ore exports due to our own steel industry growing and if that does happen, then somebody will have to step in and substitute the share of Indian of iron ore export if it does reduce. That somebody can only be one of the 3 big suppliers and it is really going to come either from Australia or South America. The more of it that comes from South America clearly the better it is for ton-mile demand.

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

Rajat Dutta : Good evening ladies and gentlemen, this concludes today's conference call. Thank you for your participation. The transcript of the same will be uploaded on the website for your future reference. We shall however, be glad to answer any of your questions which could not be dealt with in detail today due to paucity of time or



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otherwise. Kindly send us an email on the same and we shall gladly respond to the same. Thank you once again.