



“Great Eastern Shipping Company Ltd Q1 FY19
Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the Great Eastern Shipping Company Limited Q1 FY19 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. G Shivakumar – CFO of the Great Eastern Shipping Company. Thank you and over to you sir.

G Shivakumar:

Thank you very much. Thank you everyone for joining us this afternoon for the conference call to go over the results for the last quarter and also to discuss our outlook and our strategy. I trust you have been through our results and press release which came out on Friday and of course there is a big swing on account of currency and derivatives, which technically looked like we made an EBITDA loss and people who have been following us know that it is not actually an EBITDA loss but a derivative MTM loss, it is not a cash cost as we have pointed out in the first note.

We continue to be significantly EBITDA positive, we have a standalone EBITDA run-rate, just based on the first quarter, of \$100 million, so basically \$25 million plus in the first quarter. On a consolidated basis the EBITDA is in excess of \$40-45 million for the quarter. Coming to what has been happening in our markets, US crude oil production was up about 1.3 million barrels per day and product exports were up a little bit in Q2, but crude exports were actually up by 1.3 mbd in the second quarter i.e. Q2 of the calendar 2018 year on year.

Chinese imports continue to grow at about 500 kbd for the first half and 400 kbd for Q2. However, one significant factor here is that there is a pipeline from Russia to China, there was an expansion of that pipeline and that carries about 300 kbd. So, that is not seaborne imports. Crude tanker fleet growth was zero to very marginally negative in the six months period as scrapping continued in Q2. However, freight markets were very poor, and you would have seen that in our average rates. Most of our fleet is on the spot markets and freight markets were extremely poor.

Coming to US LPG exports:

First quarter of this calendar year saw (-17%) degrowth in LPG exports mainly due to a cold winter and local demand being higher. But in Q2 it moved to a marginal positive. At the same time, though fleet growth for 2018 that is the first six months of 2018 has been negative of VLGCs, the year on year number is still 5% and that has resulted in poor rates. We have seen in the last 3 to 4 weeks an improvement in spot rates for LPG ships, the VLGCs. So, let us see how that goes.

The dry bulk trade into China has grown by about between 10-20 million metric tons in the half year. There is a small negative in iron ore imports, but this is compensated by significant

increases in coal and bauxite import. So, coal has gone up by about 22-23 million tons and bauxite by about 5-6 million metric tons.

The order book stands at about 13% of VLGCs and crude tankers, at about 8-10% for dry bulk and product tankers. The offshore market continues to be challenged, though there are some signs of hope and a little bit of optimism considering what has been happening to the crude oil price and hopefully this oil price change here for some time should result in some improvement in the markets and at least in some demand for offshore assets. We currently have only one asset which is without a contract that is an 80-ton anchor handling tug supply. We are still to finish the contract on 30th June. That vessel is currently in the Middle East.

Coming to asset prices:

Tanker prices dropped slightly in the quarter while bulker prices were about flat and maybe marginally positive. Overall the shipping fleet was down by about 1.5%. Compensating this was the rupee depreciation against the dollar by about 5% which took our NAV from 357 in March to 361 in Q1. In offshore asset prices there is no real change, though we have seen at least one transaction done for a modern rig similar to ours and it is somewhere in the range of what brokers have been putting our asset prices at. As a result again, the impact of currency has been there in the consolidated NAV as well. So, the consolidated NAV is between Rs. 360 and Rs. 430 per share, so the midpoint of that is about Rs. 395 per share as against about Rs. 380 per share in the end of March.

So, that is all I have as an update. We are happy to take your questions.

Moderator

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya:

Wanted an update on some of the recent development in the industry where shipping industry has kind of (**Inaudible**). So, I just wanted to understand that.

G Shivakumar:

I take it that you are asking about the recent developments on this ROFR, etc., in India. So, far it has happened in containers and it has happened on agri products on the coast. We are not in agri products on the coast and containers, again not a very significant trade. However, there is some discussion around doing away with the so-called cabotage which is effectively just the right of first refusal. So, there are discussions going on, there are proposals which are there but there is nothing concrete yet which we know is going to happen. So, nothing much really to comment on impact. What it does is it is not enabling us to earn a premium because there is no premium that we get on any of the cargos that we get under ROFR. All we get is the right to match and that basically is saying you earn in market, whatever the market bids for a particular business you have the right to take the business at that same rate. So, as it stands we do not know how to assess the impact of it on us. It is disappointing obviously if it happens because that is

the only support which is actually there for our industry in the government regulation. And hence, it will be disappointing if it does not continue. It is already a much more diluted version of the support that exists elsewhere in the world. For instance, in China you cannot even carry a cargo on the Coast of China unless you are Chinese flagged vessel, which is very different in India. If there is no Indian flagship available to do the business at the rate that say a Liberian flagship offers, the Liberian flagship will carry that cargo. So, it is a very diluted version of support which we get, but it is very disappointing if even that goes. So, we would not be able to assess it unless we know what exactly is happening and even then we may not know because in terms of financial impact we may not know what it is. It is difficult to assess because all you get is the right of first refusal at a market rate. It gives a comfort to players who are making investments that they have full access to Indian cargo and that is not going to be there now. So, I hope I have answered your question. The short point is we do not know what the impact of it is, we do not know what form it is going to come in and even if we do we do not know how to assess the impact of it and it is difficult to assess the impact because there is no rupee or dollar number that we can put onto it.

Moderator: The next question is from Sunil Kamdar from ACK Capital Management. Please go ahead.

Sunil Kamdar: First of all I will congratulate you. Your topline has been quite good, about 11.4% growth. This quarter there has been a very good improvement in our Baltic Dry Index numbers. How it will benefit to our company sir? And the second is you know, overall it has been good, but I think in the other expenses you said there is a derivative loss on changes there, can I have some clarity on this please?

G Shivakumar: Yes. So, first of all on dry bulk we have 14 dry bulk ships today of which the cape is on time charter, so it does not get affected by what is happening to other spot market. The other ships are either on the spot market on short term time charters. So, all of them will benefit to some extent though so far, the increase has been mainly on the capesize freight rates. Hopefully it should filter down to the other smaller sizes sometimes. So, most of our ships are in the spot market or in short time charters and we will be able to take the benefit of improved pricing. But again, just to emphasize, dry bulk fleet constitutes 30% of our overall fleet. Tankers constitute the remaining 70%. That is one. Second is on these other expenses, so we would like to borrow in dollars however sometimes you can get a better dollar borrowing rate by borrowing in rupees and swapping it into dollars. So, we have done that. We have borrowed in rupees and swapped it into dollars and got a cheaper, effective rate of borrowing dollars. However, the issue with that is that there is a derivative and there is a mark to market as with any derivative. Any mark to market on that has to appear in the come through P&L. So, when the rupee depreciates against dollar this derivative mark to market will go against us. Like it has happened in the last quarter, the rupee depreciated by Rs. 3.30 to the dollar. And so there is a derivate mark to market which has gone against us. Which have just come in the P&L. On the opposite side, the money was used to buy a ship (in dollars) and the ship has also increased in value in rupee terms. However,



we do not capture that improvement in the value of the shift in our P&L account. So, it will only capture in the net asset value, but the net asset value is not a GAAP number. It is not an accounting number – it does not figure in our accounts and therefore the P&L is affected. Whenever the rupee depreciates, we are actually better off but the P&L is worst off because the significant part of the liabilities gets reevaluated in the P&L, but the assets which are the fixed assets of the ships do not get revalued into the P&L. The same thing happens with our dollar loans. All dollar loans taken after 1st April 2016 have to be revalued to the account on a quarterly basis. So, the same thing happens with those loans as well.

Sunil Kamdar:

So, can you quantify the numbers?

G Shivakumar:

We put that in a note, so the derivatives MTM was about Rs. 290 crores. It is the note #1 to our accounts. Mentioning the number from our consolidated basis, there is a number of Rs. 299.10 crore relating to the fair valuation of currency swaps.

Moderator:

Next question is from Sarvajeet Bodas from EquityMaster. Please go ahead.

Sarvajeet Bodas:

Sir my question is like shipping industry faces a sharp escalation of cost due to costlier fuel with the maximum Sulphur content of 0.5% in the 2020, so what will be the impact of this on our operating margins going forward?

G Shivakumar:

See it is a slightly complex question. The way you put it, it looks very simple and the answer to that will be the operating margins will go down because your costs are going up, however it is not as straightforward as that. One is you can fit in equipment and continue to use lower cost fuel, that is one. However, even if you use higher cost fuel what is going to happen. Whether the cost is taken by the ship owner or the charterer or the customer is a function of how the market is behaving. Typically, these costs are priced in. So, let us just take an example. Let us say that on a VLCC today, you are earning \$10,000 per day in the spot market. It is a poor market, so you are running \$10,000 per day in the spot market. The fuel consumption on a VLCC is about 60-65 tons per day. The cost of low Sulphur oil, which is (MGO) Marine Gas Oil, is about 200 – let us take it as 200, it is a little over 200 – is \$200 per ton more than the cost of high Sulphur fuel oil, which means your fuel cost is going to be \$12000 per day higher. Now if you take today's freight rate and you put in the new fuel cost your earning is going to come down from \$10,000 per day which is already low to \$-2000 per day. Nobody will do business at \$-2000 per day. And therefore, the freight rate will move up. So, you will have a floor. You will not go below. Now I am talking a little theoretically. Let us say the floor below which a VLCC operator will say I am not going to carry cargos, if I am not paid bare minimum x amount of money. Let us call that \$8000 per day. At \$8000 per day below that I am not going to take it. So, that means his share is going to be max \$2000 per day from this \$10000. The rest, the pricing, the freight rate will move up to price in the additional fuel cost which are being borne by the ship owners. So, what are we looking to maximize? As ship owners what we are looking to maximize is not



an operating margin or an EBITDA margin. We are looking to maximize the time charter equivalent yield which it comes from this which is freight minus voyage expenses. Voyage expense is mainly fuel cost and maybe some port dues and canal charges if you are passing through any of the canals. So, we are looking to optimize that number, which is in the example which I gave you \$10000 per day. It does not matter what is the percentage margin, etc, to us because the cost structure is changing every single day. Yesterday fuel oil was at \$430, today it is at \$440, day after tomorrow it maybe at \$420. And therefore, all we are looking at is at TCE. So, if the market is strong, the whole thing will get passed onto the customer. The whole cost increase will be passed onto the customer and the market will be strong if the demand for ships is higher than the supply of ships. The demand for ships will be affected by the price of fuel oil in this way. Your optimal speed and again I am giving you a theoretical example, your optimal speed at \$450 per ton which is a price of fuel today, maybe 13 knots speed. At 650 to optimize your time charter equivalent yield you may have to go down to 12 knots. What happens when you go down to 12 knots? The supply of ships reduces, because the same ship was doing the voyage in 50 days now it is going to take 55 or 60 days which means the supply of ships has shrunk means the demand-supply balance has become much tighter, which means freight rates go up because the customer has to pay more to get the ship. So, you may well have a situation where because fuel oil price went up all the ships go a little slower and therefore reduce effectively the supply of ships in the market.

Sarvajeet Bodas: And sir the second question is on the crude tanker market, we have witnessed like significant reduction in the time charters, so there has been a negative growth in the first half of 2018.

G Shivakumar: Negative growth meaning in the rates or in the fleet?

Sarvajeet Bodas: In the fleet, like scrapping is greater -

G Shivakumar: Yes, there has been negative growth in the fleet since 1st January to 1st July, very marginal negative growth. However, the fleet growth between July 2017 and July 2018 is in excess of 4% and that overhang is still there. That is the one which is really causing the stress in this market.

Sarvajeet Bodas: And so when do you see this recovery from hereon in the crude tanker?

G Shivakumar: Yes, so if we go through a year, say one full year like this. So, let us go through this year completely with zero fleet growth, which means that you have significant amount of scrapping and removal of ships and if you have this persisting through let us say for the next 12 months from mid 2018 to mid 2019, then you would have the base for a very good recovery.

Moderator: Next question is from Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Just wanted a subjective testament on the current state of the industry as a whole both individually for a dry bulk and crude tanker and product tanker. So, not any projection of future

outlook but how do you rate the current state of the industry? Is it like really depressed which you only witness once in few decades or is it like normal cyclical low we are going through? How do you currently assess the current situation?

G Shivakumar:

See in terms of freight rate, I would say this is at a very low point in the cycle. It has not been this low for a long-long time, specially for crude tankers. And product tankers are also not doing very well, also at a fairly low point, but crude tankers are really doing badly in terms of freight rates. So, however we have not seen that having much of an impact on the asset values. Asset values sort of stay where they have been plus-minus a couple of percent in tankers for the last six months. The dry bulk has seen an improving trend both in freight rates and in asset prices. We think this improving trend will continue though it is not going to go up very sharply. We think the improving trend will continue going forward. In tankers we believe that we are at the bottom of the market, we do not think it can get worse from here. However, we are still trying to work to the overhang of excess supply of ships which got built up in 2016 and 2017. We think it will take possibly 6 to 12 months to work through this oversupply of ships and after that we will get back into balance sometime in 2019. That is sort of the prognosis. That would be sort of base case kind of scenario.

Vaibhav Badjatya:

And in terms of this derivative transaction 290 crore impact, so in the segment results that we have shown in which segment does it go? It goes into shipping, right or it is in unallocable cost?

G Shivakumar:

No, it goes into shipping.

Moderator:

The next question is from Raja Kumar, who is an individual investor. Please go ahead.

Raja Kumar:

I have a couple of questions. On the TCY that you have shown for the shipping, you earlier mentioned that 70% is coming from the crude and product tankers and dry bulk is about 30%. So, I just want to know if this number holds good from a revenue mix standpoint also or is it just from the ships that you are having you gave this number? Because I was trying to find out what is your shipping revenue broken between these three categories products and dry bulk?

G Shivakumar:

This is mainly from a number of ships standpoint.

Raja Kumar:

So, is it possible to give the revenue mix as well for these three categories?

G Shivakumar:

See if you see Q1 numbers, in overall percentage terms everything is in the region. So, crude tankers are at about 11K, the product tankers are at about 14.5K and dry bulks are at about 13.5K. So, they are not very different on a measure of dollars per day. So, I do not think it will be very different. Maybe this 30% of dry bulk will become slightly higher than 30% but not very significantly so. But this is a moving thing, right? So, if suddenly dry bulk booms tomorrow and it becomes \$20,000 per day across the board, what does it really give to you? What matters is how much capacity you have in that market. So, in terms of revenue coming from which sector



it does not really matter, what matters is how many ships you have in that sector and how many of them are open to take advantage of a market based on your market view, advantage or to bear the brunt of a bad market.

Raja Kumar: And is it possible for you to give me what is the current status of the species wise as it improved from your Q1 numbers or as it deteriorated last quarter -

G Shivakumar: I think they are about where they were in Q1, they have not changed significantly. I would not think any of them has changed by more than 5% – maybe the crude tankers maybe marginally better but not more than 5%. Everything is plus-minus 5%. So, nothing significant either way. So, as I mentioned the capesize is fixed on a time charter that continues on the time charter. The smaller ships that is Supramaxs and Kamsarmaxs also are not very different in spot rates from where they were in the previous quarter. So, maybe crude tankers are marginally lower but it is within a 5% band currently. I think the only sector which you can say is significantly better is LPG where the spot market has improved significantly since the previous quarter. However, we had some ships on time charter which are now on the spot market, so that itself is a slightly mix picture.

Raja Kumar: So, in the last quarter call you mentioned that you are expecting shipping division to turn around faster than the offshore. So, I could see that the numbers are improving for products and dry bulk and crude is..... So, I just wanted to know do you expect the trend of this improvement to continue in the quarters to come by?

G Shivakumar: In dry bulk yes, we expect that it should continue. The markets should strengthen. I mentioned it to the previous caller. The markets should continue to strengthen, though not very rapidly so it will be a gradual strengthening. In crude tankers there should be some strengthening. Let us see when the winter comes and the traditional winter demand kicks in. Product tankers, yes, it has not been that much different over the last few quarters. So, hopefully we should at least maintain these levels of TCYs.

Raja Kumar: So, in the previous quarter we need to sit on the impairment for the offshore division. So, I just want to know how does the cashflow is for this division? Do you anticipate any further write-downs in the quarter to come by or did we think that market is going to be steady if is not going to improve.

G Shivakumar: First just to clarify that impairment has no cashflow impact, it is just an accounting entry, revaluation of the assets. We do the impairment testing based on some assumptions with regards to earnings etc and with regard to the market value of the assets. Again, we will do that testing again in September after the quarter closes because we do that half-yearly. And we will have to see it that time. The asset prices have not deteriorated since March, not for rigs. For vessels it is tough to tell but we will have to review it in October. Again, it is an accounting entry and it does



not affect our cash position. It is just recording, it is just a mark to market loss or gain, not a gain but a loss. So, I would not really treat that as too important.

Moderator: Next question is from Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: My question is relating to the offshore business. If we just look at the topline it has been pretty much flattish sequentially, whereas the operating days in both rigs and vessels have improved plus the rupee depreciation. So, barely see any change there. If you could explain why is that the case?

G Shivakumar: So, barely see any change in what?

Bhavin Gandhi: In the topline, so if I look at Rs. 2500 crore has barely moved despite probably a 12% higher operating days and rupee depreciation.

G Shivakumar: Yes, rupee depreciation has not kicked in yet. So, 65.5 of the previous quarter became 66.5 in this quarter i.e. Q1, because the main thing came in end of June. So, that is 1-1.5%. But the main thing there is that you had a rig which was operating at 2012 fixed contract which is Chhaya which came of that contract and has now gone into a 2017 fixed contract which is significantly different.

Bhavin Gandhi: So, was not this impact already there in the last quarter?

G Shivakumar: You are talking of ?

Bhavin Gandhi: Sequential number, that has barely moved despite almost about 12-14% higher operating days that we had in the quarter.

G Shivakumar: No, so the other thing, that is the extent of difference in these rates. The rig worked for 15 days in the quarter versus 90 days in this quarter. But the difference in rates is so much that it does not move a needle.

Bhavin Gandhi: And sir the other part is now that if I look at the operating numbers on the vessel side it appears to be only one vessel is probably idling now. So, is this the kind of operating rate, that given that we have fuel utilization in the offshore division that one should be looking at, at least in the course of this financial year?

G Shivakumar: Yes, a lot of our capacity is fixed through to the end of this year and so yes, it is not likely to improve significantly from here because a lot of the capacity is fixed. Couple of the vessels on the other hand can come off contract and so that utilization can drop as well. And as I said one vessel came off contract in end of June, so that will take a hit as well. So, yes it is not going to

improve. It is unlikely to improve because we do not have that much room to improve either because we are so much fixed.

Bhavin Gandhi: And just one more point as far as the dividends are concerned, so we paid out dividend despite a loss last year. So, how should we be looking at dividends and how are you thinking in terms of dividends?

G Shivakumar: See last year we had a consolidated loss. Again, we have a dividend policy on the website as well. We know that a lot of our shareholders look forward to a dividend. We have a large retail shareholding and therefore we try to pay a dividend and that is broadly the principle on which we operate. Now if we can, we will. It is additional \$15-20 million in cash based on last year's dividend. We have the ability, we have got the cash to pay and that is why we are doing that. It is one of the things. It is not a massive valuation improvement. Stocks which works on massive valuation improvement and therefore we believe that we should give at least a dividend where possible. And you saw that when in 2017 we did. We try to adjust this for the cycle, but we try not to go down too low when the cycle goes low and we try not to go too high when the cycle goes much higher. So, we are trying to move it, keep it within a narrower band.

Bhavin Gandhi: Your comments on Ballast water?

G Shivakumar: Ballast water is coming up. It will happen over the next 4-5 years all the way up to 2023. So, Yes, we will need to spend some money on that, but the good thing is that a lot of people will not have the money to spend on it. It is going to cause upwards of \$600,000 for the small ships and going up to \$1.5 million for the big ships. We think lots of ships will get scrapped as a result of this. So, it is good according to us, so let us see. And 7 of our ships already have the Ballast Water Treatment.

Moderator: Next question is from Ketan Karani, who is an individual investor. Please go ahead.

Ketan Karani: We have added almost 25% of the capacity, like we are operating some 48 vessels at this point of time and you had almost added some 16 vessels during last 1-1.5 years. So, are we through the end of this expansion cycle or you will need more? There are two parts to it. Will you be expanding on a regular basis? If that is the case, how would you plan to finance it?

G Shivakumar: See we have cash first of all. So, the deciding on more CAPEX is a function of what prices we get. If we get very attractive price we will stretch ourselves to do more CAPEX. We have done a lot of CAPEX. You are right, not just 25% we have gone up 50% in the last two years. We had 32 ships, we are now 48 and we are going to become 49 ships in the next couple of months. The CAPEX will be a function of what, whether we get good pricing on our ships that we look at. If we get attractive acquisition opportunities, we will acquire them. We have the capability to borrow. We have banking relationships which enable us to borrow at a reasonable rate. So, if there is a good enough project we can think of doing it. Again, the difficulty and I think it was



mentioned by the chairman in last time's statement is in finding good ships to buy, good quality ships to buy at a decent price. So, to give a short answer we are there to do more CAPEX, though I suspect not to buy another 10-15 ships and if we get a good enough deal we have the ability to fund it because we have capability to borrow it.

Ketan Karani:

One more question on the oil prices. I am sure you are not an expert at this, but do you have any outlook for the oil prices could affect the prices of the company the most. Do you have any outlook on the future oil prices, maybe for a year or two?

G Shivakumar:

Yes, we may not be experts, but we have to have a view on it and our sort of in-housed view on it is that it is going to get tighter, the price is likely to go higher. We think that the Iran sanctions have not got sufficiently priced into the oil market. If 2 million to 2.5 million barrels per day taken off the market it is currently the market may not have the ability to replace those or maybe it will be tight eroding the surplus capacity that we have when we use up those 2 millions barrels per day of production capacity. So broadly I think we would expect that prices would move higher from here.

Ketan Karani:

How do you look at the global trade war that is going ahead right now and I mean any outlook on virtue of this trade war on the shipping industry and the company as a whole.

G Shivakumar:

See two things impact which are there. So one is from US putting tariffs on China. We do not have much of an issue with that because that is mainly on finished goods. We do not carry finished goods that will affect mainly the container shipping business. The retaliatory tariff which have been put by China on US those will affect the commodity shipping market. First of all, soya bean, second crude oil and third LPG, all three of those there is a significant trade export from the US to the Far East including China and all of those important trades for the business because it travels a long distance when you travel from the US to all the way to China. It is very good for ton mile demand which is a main thing that shipping is looking for. So those could potentially have a negative impact. As a headline they do have a negative impact. However, China has to replace that product. Let us say that they are importing 20 million tons of soya beans from the US, they still need to consume that 20 million tons and that has to come from somewhere. So we think that it will be replaced maybe by Brazil and that is again a very long-haul trade from Brazil to China. It is a marginal negative on a headline basis, but it could turn out to be an okay thing because the commodity will still get transported if not from the US it will get transported from somewhere else.

Moderator:

The next we have a follow up question from Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya:

On this impairment do we earlier also you used to do it on half yearly basis or you have changed policy recently to do it on a half yearly basis.

G Shivakumar: Yes, we had discussion with our auditors and they said that we can do the testing on a half yearly basis. In shipping we used to do it on a quarterly basis we still test it and see if there is any significant, but we have agreed now that we will do it on a half yearly basis whenever we publish the balance sheet. It is on every balance sheet date so every time we published a balance sheet we will do it just half yearly for September and March.

Moderator: The next question is from Himanshu Upadhyay from DHFL Pramerica. Please go ahead.

Himanshu Upadhyay: So I had first question was on the product tanker side we have seen the product also doing much bad than last year okay and generally we thought that product would be far more stable category what is happening in that category and are the assets prices also correcting in that space and by when do we expect any improvement on that side because size of the fleet wise it is much bigger, so are you looking at that category and because now we have a much larger gas carrier fleet can you give a gas carrier separately and product tanker separately just have a better understanding of how the things are happening.

G Shivakumar: Product tanker basically I think there is an issue with gasoline demand especially in South America and therefore the Atlantic trade has been quite poor and the Atlantic rates for MRs have been quite poor. The long-haul trade of Naphtha from Europe to Asia also suffered because of demand being a little lower and that is a long-haul trade which has a significant impact on ton mile and increased competition again from LPG. And the other factor as the new crude tanker which are being delivered in the Far East mainly from Korea as a first voyage they take a gas oil cargo to Europe and that takes a Suezmax or VLCC carrying a million barrels that takes away demand for a lot of product tanker. So it is as small factor, but on the margin it makes a big difference because again a long-haul trade. So these are the factors and fleet growth has been okay in the six month it is probably been about 1% but on a year-on-year basis probably at about 4% to 5% which is significant and that is what is really causing the weakness. The spot rate has actually been, and this is again I am not talking about our rate but I am talking our rate but I am talking about general market rates. Spot market rates in the quarter has probably been below 10,000 per day for non eco ships.

Himanshu Upadhyay: And assets prices have also corrected.

G Shivakumar: Asset prices not really. So there maybe \$0.5 million here and there. At the older end prices are under pressure but not really. So 12 to 15 year old ships have been struggling a little bit but at the modern end we do not see any real pressure. So in the older that is a 10 to 15 year kind of profile we are looking at about 5% but half million to 1 million kind of reduction in prices and these are all ships which are between 10 and 18 million in value.

Himanshu Upadhyay: Any improvement do we expect from here on or how is the outlook on that segment specially

G Shivakumar: So inventories have come down significantly in this year. So we expect that this should come back by first half of 2019. We would have expected recovery by second half of 2018 but this has been pretty disappointing and so we are pushing that further out. So, may be first half to mid-2019 we are not seeing any great factors for a recovery in the near term really.

Himanshu Upadhyay: I had a question on LPG carriers so what is the outlook on that and have the asset prices fallen or can you give some the way the market has behaved in last year both in terms of asset prices and charter rates and what is the outlook you are seeing in that category especially on the order side VLGC and MGC where we are present so some clarity on those two segments.

G Shivakumar: The older ends the prices have dropped significantly again older I am talking about (+20) years prices in VLGC. At the modern end also they have dropped a bit in the last one year or so maybe by 10% to 15%. So there is pressure in pricing of ships and that sort of enables us to buy a couple of gas carriers so in the last twelve months we have bought four gas carrier as you would noticed 2 MGC and 2 fairly modern VLGC 10 to 12 year type of age profile. So, prices have dropped in recent weeks, we have seen that the spot rates has gone up so spot rates which were languishing in the sub-10,000 range are now up to about 15,000 to 20,000. I think Indian voyages are getting fixed in fact at (+20000) for voyages to East Coast of India. So these are not bad rates. It is tough to say what is driving this, but it has become significantly stronger. So the freight rate from AG to Japan was \$20 per ton maybe three months ago it is now \$40 per ton. Some of it goes in the fuel cost but significant part of it is an improvement in the TCE.

Himanshu Upadhyay: And order book on both these categories mean as of now percentage of fleet?

G Shivakumar: Yes it is still about 13% for VLGC, there have been few orders going in people have still been ordering some. So that is happening. Again, all this scrubber stuff some people are taking a view we should fit scrubber, etc. So might as well go and order a new ship with eco, scrubber, etc., so maybe that is pushing some orders, but the order book remains at about 13% for VLGC and in crude also it is also around 13%.

Moderator: The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: For our offshore business at what price levels for oil should we see E&P activity coming back and then you know utilization levels improve and then this industry finally turning around?

G Shivakumar: The current price level is not a bad number at all. At this price level you should see it coming back. However the critical thing is the confidence about future levels again even that is not an issue because though you are in backwardation on the crude price, you can still go out and hedge three years down the road, five years down the road at above \$60 per barrel which is still a decent number considering somebody had put out a report saying that oil company are more profitable at currently at \$60 per barrel then they were at \$110 per barrel in 2014 because the cost structure has come off so much. At \$60 they should be able to make a lot of project work considering the

deflation in the cost of services including drilling and offshore vessel and lot of other services. So the crude price is fine, it is just a question of making the call and being confident about demand being there going forward and this generally happens with a little bit of a lag and we believe that with this lag there should be there should be an improved or increases in the budgets for E&P activity which should come through by the end of this year and in fact this is around the time that people undertake this E&P service. The broking houses they undertake E&P service of the E&P majors to what kind of view they are taking on the CAPEX for next year and so hopefully we will start getting a picture but I would be very surprised if CAPEX next year did not go up from this year levels considering what has been happening to oil price (+65).

- Moderator:** The next question is from the line of Ranjit Kothari from Vibrant Securities. Please go ahead.
- Ranjit Kothari:** My question is on the balance sheet if I understand correctly we do a mark to market adjustment every 6 months, so is it fair to say that our book value should be very close to NAV?
- G Shivakumar:** So couple of things mark-to-market you are referring to the vessels.
- Ranjit Kothari:** The asset basically the asset side vessels and rigs offshore assets.
- G Shivakumar:** So we do not do a mark-to-market, we do an impairment testing. The impairment testing looks at two things – one is a current market value and second is it looks at the NPV of future expected cash flows of the assets. So, it is a not a pure mark-to-market like you do for a financial instrument because it is a completely different thing and you should not be valuing a fixed assets like that. So the mark-to-market that you are looking for is in the NAV that we declare. The NAV that I put out every quarter and the book value per share in Great Eastern Shipping standalone for instance is about Rs. 330 per share and the NAV I mentioned is Rs. 361 per share therefore you know that the market value of the shipping fleet is higher than the book value of the shipping fleet and on the flip side when I gave the consolidated NAV I gave a range of 360 to 430 approximately and the book value on a consolidated basis is almost Rs. 450 per share. So you know that on a consolidated basis you are market value of the asset is lower than the book value of the assets.
- Ranjit Kothari:** Which means that you are expecting a better cash outflow than what the NAV is currently quoting at?
- G Shivakumar:** We are expecting that the NPV of future cash flow of our offshore assets is higher than the current market value.
- Moderator:** The next we have a follow up question from Chetan Karani he is an individual investor. Please go ahead.



Chetan Karani: One more question again on the oil side, the oil prices strengthening is a function I mean what has caused the oil price strengthening is that function of that Aramco IPO or there are genuinely market related thing which have strengthened the oil prices or the future outlook for the oil prices?

G Shivakumar: On a humorous note I think it is easier to give an outlook for oil prices than to explain the past movement in past prices because nobody knows why it is moved in the past, but the fact is that there is some tightening in the oil market, the surplus capacity which was there is getting eroded. Venezuela has dropped their production which is one of the OPEC members and is an oil exporter Their production has dropped dramatically in the last one and half to two years. Libya production is coming off is very uncertain these days. So, a lot of oil which used to be in the market is no longer in the market or it is very uncertain and therefore there was a big spare capacity which was there in 2015-2016, which drew the price of oil down to \$35 or lower and that spare capacity no longer exist. There is, therefore, a worry about what can happen to oil prices if you have an incident. For instance, if suddenly Iran sanctions which were supposed to kick in the next couple of months if they kick in and you do not have the ability to substitute those 2 million barrels of oil then you have a very tight market and therefore that could be a concern, but broadly the past is a function of what we think is a function of the surplus capacity which was existing production capacity, is no longer there, it got reduced significantly in the last two years and that is why oil has moved from \$35 to \$70.

Moderator: Thank you very much that was the last question in queue. I would now like to hand the conference back to Ms. Anjali Kumar – Head (Corporate Finance and Communications) for closing comments.

Anjali Kumar: Thank you everyone for joining us this afternoon and asking some very interesting questions. As usual, we will be putting out the transcript of this call on our website in about two days and of course we are open to answering any further queries that any of you may have. Thank you very much.

Moderator: Thank you very much. On behalf of the Great Eastern Shipping Company Limited that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.