"The Great Eastern Shipping Company Limited Earnings Call on Declaration of its Financial Results for the Quarter and Year-ended March 31st, 2024."

May 10, 2024

MANAGEMENT: **MR. G. SHIVAKUMAR – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, THE GREAT EASTERN SHIPPING COMPANY LIMITED**
MR. RAHUL SHETH – THE GREAT EASTERN SHIPPING COMPANY LIMITED
MS. ANJALI KUMAR – HEAD, CORPORATE COMMUNICATIONS, THE GREAT EASTERN SHIPPING COMPANY LIMITED

Moderator: Good Evening, Ladies and Gentlemen. Welcome to GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter and Year-ended March 31st, 2024.

At this moment, all participants are in the listen-only mode. Later we will conduct a question-and-answer session.

I now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communications at The Great Eastern Shipping Company Limited, to start the proceedings. Over to you.

Anjali Kumar: Thank you, everybody for joining in today and welcome to the Earnings Call for our Q4 & FY'24 Results.

I would just like to take a minute to introduce our panel today. The Presentation will be made by our Executive Director and CFO – Mr. G. Shivakumar and followed by Questions and Answers from all of you.

To handle the questions, we have of course Mr. Shivakumar, and we also have from the Management Team Mr. Rahul Sheth, who will also take questions along with him. So, handing over to you, Mr. Shivakumar.

G. Shivakumar: Thank you, Anjali. Good evening, everyone and thank you for being here for our Conference Call for the Q4 and FY'24 Earnings Presentation.

First of all, a standard disclaimer:

We are not intending to forecast, and we don't intend to give guidance on future profitability. Please keep that in mind when we have our Q&A.

Highlights are that we had our highest ever reported net profits of 2,614 crores consolidated. Our consolidated NAV has moved up to about Rs.1,400 per share as of March'24. We have declared a fourth interim dividend of Rs.10.80 per share, taking the dividend for the year FY'24 to Rs.36.30 per share, which includes a special dividend of Rs.7.50 per share on the occasion of our 75th Anniversary.

You would have seen our P&L. I am not going to spend too much time on it. We are of course net cash on a standalone and a consolidated level. On a normalized basis, the last quarter was our highest ever quarter in terms of net profit. The previous highest quarter in our history was Q4 FY'23 where we had a net profit of Rs.662 crores, this quarter we had a standalone net profit of Rs.701 crores. On a consolidated basis also, this is our best quarter at Rs.851 crores net profit.

Looking at the NAV per share, on a standalone basis, we have gone up from Rs.962 per share in March '23 to Rs.1,127 per share in March '24. This is after paying significant dividends during the year. On a consolidated basis, as I mentioned earlier, our NAV has moved up from around

Rs.1,160 per share, mid-point of the range to around Rs.1,400 per share. I will not go through the next slides. This is just the trend of the quarterly EPS.

Looking at what happened during the quarter, just in terms of the rates and then we'll go into what went into those rates as well. Crude tankers, product tankers, even LPG did significantly better than they did in Q3 FY'24. In the case of crude and product tankers it was because of the spot markets being high. In the case of LPG, it's because we went off contract at a certain rate and we repriced that contract at a significantly higher rate. All our LPG ships are on time charter. Dry bulk rates were a little lower than they were in the October-December quarter, but the tankers more than made up for it.

Looking at the year, you can see that crude tankers were marginally better in FY'24 than in FY'23. Product tankers were a little worse, though still at very profitable levels and LPG carriers because of the repricing of contracts to slightly higher level, did a little better than in FY'23, but dry bulk was significantly weaker in FY'24 versus FY'23.

Looking at the standalone NAV, I mentioned that 960 went up to 1127. Rs.190 came from cash profit which is PAT plus depreciation. Fleet value change contribution to this was insignificant. So, a large part of the NAV accretion has come from cash flows and cash accruals. Out of this, we paid out Rs.35 in dividends during the year and therefore the NAV went up by about Rs.165 per share.

Five years movement in standalone NAV. So, we have a CAGR of 25% between March '19 and March '24. If you look at consolidated also it is a similar CAGR because we were at about Rs.450 per share in March '19 and we are at about Rs.1,400 per share in March '24. This does not take into account the dividends that have been paid in the interim.

Changes in consolidated NAV, again Rs.226 per share in cash profits. We had some fleet value improvements on the offshore side, so that contributed Rs.41 per share.

Let's take a quick look at what happened in the shipping markets. As I said, the spot markets were possibly slightly weaker than they were in the previous year. So, in Q4, we had a year-on-year drop in earnings for crude tankers, basically because we had a very strong Q4 of last year. However, it was stronger than in the immediately preceding quarter.

Product tankers earnings were higher year-on-year. One of the factors which came into play was the tension in the Red Sea which led to significant rerouting of global tonnage around the Cape of Good Hope. Red Sea transits for tankers dropped by about 40% in Jan-to-March quarter as compared to the previous quarter, which means more tonne-miles for tankers. Overall, the trade declined slightly for crude tankers, however, made up by the tonne-mile impact. Order book for crude and product tankers have built up but are still quite low and we will see that in perspective in a couple of slides.

Dry bulk, we saw the markets recovering a little bit for the larger sized ships. So, we saw the capesize going up from $15,000 on average in FY'23 to $21,000 on average in FY'24. You will recall that the previous year was the year of the sub-cape performing well because of the minor bulk commodities doing well. Now, it's large commodities which have done well and therefore the capes have outperformed. So, we saw the Supramax earnings drop from $18,000 a day to about $12,000 a day from FY'23 to FY'24. Again, I must reiterate, these are not our earnings, these are market earnings that I am talking about, these are market indices.

So, we had an unseasonally strong quarter in Jan-March, traditionally a very weak quarter. Typically, the Chinese New Year, Brazilian weather impacts tend to push rates down in Jan-to-March. However, this quarter was very strong and therefore capesize spot earnings. You can see this number, 175% higher year-on-year. Even the sub-capes were much higher compared to the previous year. So, we had significant supply of iron ore coming from Brazil, which moved into China and Chinese iron ore imports continue to be strong. Coal imports into China also continue to grow strongly as a result of lower domestic coal production in China and greater coal demand for electricity generation. So, the Red Sea disruption also impacted here where again you have between 40% and 50% of ships routing around the Cape of Good Hope.

Asset prices here firmed up, 10% to 15%, in line with the growth in earnings. The order book continues to be fairly low at less than 10% of the fleet.

In LPG, just to reiterate, our ships are not in the spot market, they are on time charters, but the market was strong, FY'24 was much stronger than FY'23 and the order book has built up quite significantly; we are at above 20% order book for LPG. Asset prices are at all-time high levels for LPG carriers.

One of the significant factors over the last six months has been the two canal disruptions and two very important maritime potential choke points. As I mentioned, Suez Canal trade dropped by 40% to 50% from a year earlier, while trade through the Panama Canal also has been affected. This happened since October. Drought at the Panama Canal has posed restrictions on the number of ships that can pass through the Panama Canal on a daily basis. So, that came down from about 32 to 34 transits per day, down to at its lowest point, 20 transits per day. Now it's coming back up because they've had some rains and the levels are improving, but you can see the graphs there, if you see the blue line on the right, you can see the increase in transits around the Cape of Good Hope, while the transits through the Suez Canal have dropped off significantly starting in January. On the other side, you can see the gray line, which is the Panama Canal, where you can see from October onwards, the transits have dropped significantly. This mainly affects exports from the US Gulf to the Far East which used to transit through the Panama Canal, especially LPG, which then had big tonne-mile impact and we saw LPG spot rates going up to $100,000 a day in December, January.

Looking at fleet supply, we have shown this slide very often. As I mentioned, you can see the purple line, the current order book for gas carriers, it is at about 25%, while the order book for the other three kinds of ships are quite low in historical terms.

So, on the flip side, there are only two permanent things in shipping. One is new ships coming into the fleet and the other is ships being removed from the fleet due to scrapping. We've seen scrapping being at very low levels. The average scrapping percentage over the last 5-6 years has been only about 1.5% and a lot of old ships are still around because the markets have been reasonably strong. All of this sort of gives a cushion in a weak market where a lot of these older ships, which are only able to operate because of the strong market will have to go or will tend to go first in a very weak market. And we thought we'd put this in a graph. The Y-axis is the percentage of aging fleet, and here we've defined the aging fleet for bulkers and tankers as those above 20-years of age, and for LPG carriers as those above 25-years of age. So, if you see for instance the crude tanker order book, which is at about 7.5%, but the fleet, which is old is 18%. For dry bulk carriers, the order book and the old fleet are about the same. In product tankers also, you will find that, while the order book is 15%, the aging fleet is also a similar number. It's different for LPG. LPG is a commodity which has seen very strong trade growth and where we've actually seen the fleet going up 2.5x in the last 10-years.

Looking at asset prices, we have mentioned that asset prices have been very high for quite some time now. So, they continue to go up and in recent months we've seen dry bulk asset prices also move up quite sharply.

Looking at Greatship, this is a little bit of background. FY'16 to '21 we had a very challenging period for Greatship and indeed the entire industry worldwide utilization levels across asset classes were very low, charter rates came down to levels which generated basically no EBITDA if you were lucky enough to get a charter and a very large part of the industry went through financial restructuring or reorganization. In our case, we paid down a lot of debt. Thanks to our risk management and having a lot of contract coverage, we were able to come through it unscathed. We had minimal cash depletion. We paid down a lot of debt. And post FY'21 utilization levels have improved, the market bottomed out and E&P activities have started to increase, contracts are getting repriced, every contract gets priced at better than the previous employment contract of that asset. So, if you have a vessel coming off a charter, let's say a three-year charter at X-dollars per day, typically the repricing would happen at $1.5-2x per day. So, the business has now come back to profitability.

Utilization, there's been a gradual improvement. This is up to March. Now in the month of April, we've had a little bit of a setback for the global jack-up market. Saudi Aramco had announced earlier in January that they are scaling back on their target of reaching a 13 million barrels a day production capacity and they're going to take it back to 12 million barrels a day. This has been seen in action in the last month or so where they have either off hired or suspended contracts on at last count about 22 jack-up rigs, and leading to a drop in utilization, so that market is in a bit of a state of flux now. It remains to be seen what happens now next to that market.

We will not go through fleet supply. Let's look at what assets we have up for pricing. We have 12 vessels up for pricing. All of them have been bid into tenders and businesses, whether in India or overseas and are in a reasonably good position to win business. The one thing which has happened is that our rig Greatdrill, Chetna which is scheduled to come off contract in end of June, that's end of next month and where we had bid into a tender in India. We have just received news that the tender has been cancelled. So, we will look at what other options are there.

Typically, rigs which are working in India during the southwest monsoon and which are due to complete their contracts during the monsoon period, typically get extended through to the monsoon period because they cannot move during that time. So, let's see what happens with the Chetna and we'll look at what other employment options there are as well.

Coming to financials, we've seen this graph before. We levered up to expand between FY'17 and FY'19 and then we reduced our debt just by sheer cash flows coming in from the business. So, we have about $350 million of net cash currently.

And share price to consolidated NAV, our consolidated NAV as I mentioned is about Rs.1,400 per share and our stock continues to trade at a significant discount to that net asset value.

Just touching on what we do on the CSR front, since 2015 when we started our foundation, we have partnered with 49 NGOs. We've helped reach good education outcomes for more than 1.5 lakh students, we have helped good health outcomes for almost 1,20,000 women and children, and we have provided for around 42,000 women especially providing entrepreneurship training and helping them to set up small businesses. These are a list of our CSR partners. All details are available on our website, and we would invite you to go and check it out. We are very proud of what we have achieved on the CSR front.

The other thing is on our presentation you'll find the link to the coffee table book. We invite you to take a look at that as well. Thank you. And now we can go to Q&A where we'll be happy to take your questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We have our first question from Rajesh Khater, an individual investor. Please go ahead.

Rajesh Khater: Sir, your maximum fleet is in product carriers and dry bulk carriers, almost 34 out of your 44 ships are in these two segments. So, I mean, what is the reason that you have positioned yourself more on product carriers and dry bulk carriers so disproportionately especially when you say that LPG trade has been growing significantly over the last many years?

G. Shivakumar: So, it is not a conscious strategy. We are quite agnostic to what sector we invest in. Actually we entered the VLGC sector specifically and we have three (VLGCs), Very Large Gas Carriers for the first time in 2012. So, we made a start there and yes, we have only four LPG vessels, but they've been very profitable, though it's not that the product tankers have been less profitable than the gas carriers. All I mentioned was that it's been a significantly growing market. And for us, the growing market really doesn't make that much of a difference because we are not that big that we need a much bigger market to grow. There's enough space to grow even when the market doesn’t, since we have very small proportion of the overall global fleet. Rahul, do you have anything to add to it?

Rahul Sheth: So, we have seen historically that it's not that one segment has outperformed the other segment materially. At different points in time, different segments have done well. So, whenever we are looking to invest our capital, we are always weighing the decision between one sector or the other. So, it can be a situation where at one point in time you have more crude tankers than product tankers. We are not wedded to one particular sector.

Rajesh Khater: So, going forward also when you decide to invest your capital in buying new ships, will you have any affinity for a particular sector or there's no such thing in mind?

Rahul Sheth: No, we have no particular affinity to one sector over the other. We will always look at relative pricing between the sectors if the capital is limited and it also depends on where you are able to obtain the ships, because in the second-hand market you also have to have deals that you can transact. However, a broad goal which the company always tries to focus on is to be diversified across various sectors. Now, the level at which you're diversified between different sectors may vary from time-to-time, but we have seen that different markets may do well at different points in time and other markets may do poorly at different points in time, therefore, to be diversified is more important.

G. Shivakumar: To answer your question, if you have an opportunity to buy, say, a gas carrier, let's say the markets come to the levels at which we would like to buy. At any point, we will look at which is the ship to buy, which is most likely to give us the best possible return. It's again like a portfolio manager. You have to look at asset giving best possible return when you have scarce capital, you have to try to allocate it accordingly.

Rajesh Khater: Because I think you mentioned that LPG trade has grown about 2, 2.5 times over the last many years, whereas the crude trade has probably come down probably, right. So, -

G Shivakumar: It's not come down. So, again I will reiterate. It doesn't matter whether the trade has grown or not. What matters is the investment returns that you're making from that business. We are an international shipping company. The crude trade not growing does not mean we can't grow. We can be five times our size in crude tankers without being too big in the market. So, the growth of the actual trade is not really a factor here when we are thinking of purchasing. We are looking purely at what is the return that you can make from that asset. Also one more thing, just keep in mind is that when you look at trade, trade is a factor of two things. One is the total amount of cargo that has moved and second is the distance that that cargo has moved. So, you can have a situation and if you see the tanker market before the war and post the war, the amount of oil on water has changed marginally higher. However, the tonne-mile, which is the distance travels times amount of commodity carried, has increased substantially because of the war and the change in the trading pattern, and because of that you have much higher tanker rates. And also, you have to always keep in mind the supply side. You can have higher growth in demand, but you can also have higher growth in the supply of ships, which means that net-net you may not be better off in a trade that just grows faster. So, you have to look at all the factors to determine whether or not the market would be higher or lower.

Rajesh Khater: And the 12 vessels that are coming up for repricing and you said that one of the tenders where you intended to participate has been cancelled. So, what are your plans now and how are their prospects looking end of June.

G. Shivakumar: The vessels that are coming up for repricing have all been bid into businesses and are likely to get their next contracts at higher than the previous contracts. These are the offshore vessels. They've all been bid into tenders and the market is fairly tight. The one which I referred to the tender being cancelled is on a rig where we have just received the news of that tender being cancelled and therefore we will now evaluate our options with regard to that rig.

Rajesh Khater: Sir, this other income of Rs.163 crores, what is it comprising of?

G. Shivakumar: A lot of it is treasury income. We have a very large amount of cash because we have generated so much cash. So, that's treasury income.

Rajesh Khater: You've mentioned in the slide the order book versus scrapping potential. As an individual investor, I mean just can you help me understand the significance of this, for example, let's say an LPG carrier which has a high order book and a low aging fleet versus a crude tanker, I mean, can you just help me understand the significance of this chart?

Rahul Sheth: So, let me just go on to the crude tankers and product tankers where the order book is relatively low as compared to the scrapping potential. So, when we say, it's potential, the point is that largely over the age of 20, tankers find it hard to trade in international markets because either charters or terminals have restriction. Having said that, it is not necessary that those vessels will be untradeable. We often see that in tight markets, you can have a situation whereby the vessels trade longer than age 20. So, as of today you're seeing many vessels above the age of 20 but are not being forced to scrap because the rates are very high, owners are earning much above their costs on those assets and charters are also willing to accept those vessels because the market is very tight. However, if the market comes down and charterers have a lot of choice and those owners with older vessels are unable to trade those vessels or they're unable to employ them sufficiently well, they may then be forced to scrap those ships and therefore there is a potential for the supply of vessels to come down. On LPG, it's the reverse where the order book is high enough and there isn't many vessels that are likely to be scrapped, because even if the market comes down and your vessels are relatively young, then you will tend to hold on for a longer period of time before you come up with the decision to scrap the vessel.

Rajesh Khater: By order book, what do you mean here, I mean, you're referring to the order for the supply of new carriers?

Rahul Sheth: That's right. So, if you see the order book of a crude tankers at 8%, it means you take the total fleet of crude tankers in the water and 8% of that is on order for delivery generally, over the next two to three years.

Moderator: We will take our next question from Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: So, on this Saudi Aramco changes in the capacity and cancellation of rate, are you also seeing some impact on OSV market or it is largely restricted to rigs?

Rahul Sheth: So, at the moment we are not seeing such an impact on the offshore vessels. One thing to note is that the offshore, it's the number of vessels, the number of units are much larger. Also, the offshore vessels supply both the jack up market and the deep sea market and we are seeing sufficient demand in the deep sea market. So, the offshore vessels are well employed all across the globe. So, on that as of today, we are not seeing a major impact.

Vaibhav Badjatya: And in the context that get repriced in first half '25? If you can help us understand broadly what is the extent of repricing both on PSVs and anchor handling supply vessels separately broadly, what is the current rate they're earning, which is coming into our financials and what is the last pricing which is indication of this?

G. Shivakumar: We don't give out the rates at which these vessels are earning. Suffice to say that the earning rates and the last contract which have happened are between 50% and 100% higher than the rates at which these vessels are currently earning. And the markets continue to be there at close to 2x what these contracts are running at current. So, there is enough business for offshore vessels. That is something I want to emphasize.

Moderator: We will take our next question from Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: On the Greatship side, what will be the incremental EBITDA addition that Greatship would have seen, the subsidiary?

G. Shivakumar: Are you talking about in the coming year or you're talking about the past year?

Pritesh Chheda: No, just the quarter gone by.

G. Shivakumar: So, if a couple of contracts got repriced you would have had an impact of $8 million to $10 million additional EBITDA that is year-on-year Q4.

Pritesh Chheda: So, standalone minus consol is largely Greatship EBITDA?

G. Shivakumar: No, we will have the segment results there to see that. But we also have a trading subsidiary which does chartering and freight derivatives that also comes in the consolidated, it does not come in the standalone.

Pritesh Chheda: Is it fair to assume that when I was listening to your last call or let's say the last couple of presentation had talked about 7 vessels to be repriced in H2 FY'24. So, those would have flown into your EBITDA in the second half of FY'24?

G. Shivakumar: Yes, most of them would have flowed through to the EBITDA again for short periods of time. Because all the vessels that were employed as of April.

Pritesh Chheda: Incrementally, we'll keep seeing build up on this EBITDA because there are another 15 vessels to be repriced in FY'25?

G. Shivakumar: That is correct where the market stands currently, yes.

Pritesh Chheda: At whatever the current market and the market stands in, these contracts are usually three years, right?

G. Shivakumar: Yes, These OSV contracts usually are for three years. The rig contracts are also three years.

Pritesh Chheda: My other question is, in the first two months of the current financial year on the commercial shipping side or the merchant shipping what are the rate increases, what are the Q4 averages?

G Shivakumar: Product tanker rates have stayed around the same level or they've marginally been stronger. The crude tanker rates may be marginally weaker, but not that much, maybe a little bit weaker than they were in the previous quarter, but again this is as of the last one week and this changes from day-to-day.

Pritesh Chheda: And the bulk?

G Shivakumar: Bulks have been getting much stronger in the last week to 10 days, especially the smaller vessels.

Pritesh Chheda: So, Saudi off-hiring 20 rigs means about 5% incremental supply. Do you see that's significant enough to change the mood in the rig market? Because what I heard was the ONGC were looking for rigs and ONGC had this 26 rig plan. So, does it change the dynamics of the rig market, which is in such a short supply and there is no incremental rig getting added.

G Shivakumar: In practical terms, it does not necessarily change the supply scenario in the Indian market. We are not seeing any of those.

Pritesh Chheda: Let's say globally also 5%.

G Shivakumar: So, globally, these rigs obviously have to go somewhere else and we've seen I think one or two of the rigs, they've already announced the rig of the drilling operators announced that they've got contracts elsewhere. But they are unlikely to actually come into India to work because of the specifications required in India. But on the other hand, mood is, one never knows. It's difficult to quantify how sentiment will be.

Rahul Sheth: But before this news, the market and utilization of the jack-up rigs were above 90%. So, even when you see a 5% reduction, which you're right, it still is about maybe 85%, 87%. So, in the grand scheme of things, the jack up rig market is still quite tight. We've not seen any similar announcements from any of the other oil majors and there is still interest in other oil majors to still contract. So, we'll have to see how this development plays out over the next few quarters.

Pritesh Chheda: Our four rigs are on Indian shore to be deployed on Indian shore or outside India?

Rahul Sheth: As of now on the Indian shore, but I am not saying that it's restricted to India, they can operate in other places.

Pritesh Chheda: As of now, they are in Indian shores deployed?

Rahul Sheth: As of now, yes, all four.

Moderator: We will take our next question from Himanshu Upadhyay from Buglerock PMS. Please go ahead.

Himanshu Upadhyay: This question is a follow up from last quarter, okay, where we stated that the focus currently is on replacing of older vessels with new vessels on product tankers and we have done some deals. But just I had a question was this that we are selling old MR tankers nearly around USD14, 15 million approximately and buying new ones for USD30 to USD35 million approximately. We have replaced two MR tankers recently. So, the sunk or invested capital is nearly $60 million. Why not directly buy one MR tanker, which will be again nearly for $30 million and the invested capital will be similar to $60 million, which we are doing by replacing old with the newer one? The question is because the revenue days will be three for $60 million versus two revenue earning days on product tankers what we are doing. Yes, the base assumption is the market will remain good for two, three years, but that is the assumption which we are making even for replacing old vessels with the new vessels, and hence why not directly the additional capital we are doing or adding, we directly buy one more ship for replacement of two ships, where am I wrong in my assumption or I am confused slightly here?

Rahul Sheth: One is the major assumption that the market will be good for the next two, three years. We don't know that. In the replacement, you're right, we are replacing our older vessels with newer vessels. So, some of the older product tankers which are hitting twenty in Cal'2024, they generally tend to come closer to the end of the economic life. Because the market is very strong and asset values are very high, we are able to capture a premium on those older vessels vis-à-vis what we would have normally gotten if the market was at a much lower level. When we buy a slightly more modern vessel, we buy more life and we are paying a higher price than we would normally like to pay. But the premium that we have captured during the sale is somewhat being recirculated back into the vessel, which is slightly younger. So, when you look at that math, right, we believe we are being conservative in the way we are investing this capital. While we keep exploring the way to deploy our capital, at these price levels, we are a bit cautious in terms of investing and going net long into the business.

Himanshu Upadhyay: See, the question is the base capital investment remains $60 million in what we are doing and versus adding one more ship directly, okay. But my IRR will be much more front-ended if I have three ships versus two ships because my day rates or the carriers will be -

G. Shivakumar: Himanshu, sorry to interrupt, But yes, I have got your point. So, where we are adding on the one ship of capacity upfront and you're saying why don't you just add that one ship capacity instead of saying that you're going to move out of two old ships and move into two modern less old ships, let's say -

Himanshu Upadhyay: The IRRs, how does it impact? I found the IRRs are better.

G. Shivakumar: So, what you're saying is why don't you just buy outright a modern product tanker instead of doing these switches. The issue with doing an upright purchase is then you need a very strong market in order to justify it because you know where the asset prices, the asset prices are at their highest level since 2008. So, you need to price in a very strong market for the next three to four years in order to justify it. And what we are doing is simply saying that we don't know if that will happen and we can't bet on that happening and therefore, we are saying in this high part of the market, we are trying to limit the amount of capital that we put to work, we are maintaining our market position, we are ensuring that those couple of vessels which are getting towards being overaged and cannot be traded freely in the international market, we move out of those and maintain our position in the international market with some additional capital, but reducing the amount of capital which could potentially not meet our target. Let me just give an analogy in the market. In the stock market, you can choose to say I am going to put new money to work in this market or you can say I am going to quit out of one of the stocks where I have made money and put it into another, I am just moving my money from one to the other. So, we are just trying to limit the amount of investment we make in the high part of the market.

Himanshu Upadhyay: See, I don't agree to the stock market analogy, because here you are getting three rent yielding assets, okay, stock market is not a rent yielding asset, okay. So, there is one point of difference in that analogy, okay. And the second is if the base assumption we are not ready to invest incremental because the markets are high and that is the assumption we'll need to make, but then if that is the whole thought process, then why do we renew also the old ship to new because the base capital you are putting is $30 million from the older vessels what you sold and $30 million for the new vessel, what you put in which is $60 million, okay. So, I hope you are getting from where I am coming, okay. The three revenue days you get versus two. And if we are not ready to take the risk of for putting incremental money, but then I think there is some point of difference of opinion here.

Rahul Sheth: So, one of the things is just let's talk about the net long position, right, where you're just buying a ship outright. The thing is that we should not get overly carried away with the current yield, right? Because while today the markets could be very strong, they can be very weak in the future and then what looks good on paper today could eventually look very bad in the long-term, right, it is possible, not necessary, but it is possible. And we always play on probabilities. And today, with the way the markets are, the price levels which they are, you need the market to be strong for a longer period of time to make this project justify. However, on the switching, right, yes, okay, that is a fair point that then why even do the switch. But like I mentioned earlier in the conversation, let us just take a very, very crude example. Let's say you're willing to pay a Rs.100 for a ship, right, and today because of the way the market is, it's at Rs.150, you are selling that asset and capturing that Rs.50 premium which you normally would not have gotten unless the market was this strong. And then you go buy a younger ship, right, which is let's say priced at Rs.200, that's also priced at a higher price of Rs.250. So, that also has a premium. So, you're recycling the premium from one ship to the other. So, you're being more conservative. What is your other next best option? Your next best option is to lose the capacity entirely. And then what happens is that, if the market does remain stronger for longer then you don't have a ship to take advantage of that. Also another issue as a shipping company, you need to maintain a certain level of exposure in the market because you have charters, customers, employees, you have a whole system to keep running. So, you may not want to be a point shrink your capacity in your market presence. So, you have to balance between the two. It does not need to be a binary outcome where you say, okay, fine, if you're not willing to add additional ships, then why not lose all your current existing capacity?

Himanshu Upadhyay: See, there is a third option, okay, which you are not talking about. Let the older ships run in good and in these times when the capacity is scare, the ships can be run for another two or three years and the risk capital which I am saying remains 30, it does not go to 60.

G. Shivakumar: That assumption that you are working under is not correct. What you're describing was very true in 2004 to 2008. We ourselves ran 25-year-old ships in the international market. It is not valid today unfortunately or maybe fortunately. There are a lot of trades which are just not available to an older ship. So, your 20-year-old MR or 21-year-old MR tanker irrespective of the condition and we run very good ships. Irrespective of the condition, all they look at is what was the date of build of the ship. If it has crossed so and so age, it is not acceptable at this terminal or it is not acceptable to me to carry my cargo. That is one change. What you are saying was very true in 2004 to 2008. The market is different today and we will actually not be able to participate in a lot of trades with overage ships. I agree with you, in a hot market, the best ship to have is the oldest ship. You just take the MR rate for the last two years has been probably $33,000, $34,000 per day. And if you take your EBITDA, you produce $18 million of EBITDA. Nothing could have been better than having a 20-year-old ship two years ago, which was worth maybe $10, $12 million. No investment could have been better than that. Unfortunately, those are the numbers on an excel sheet. They don't work because a lot of the customers and lot of the trades do not accept 20-year plus ship.

Himanshu Upadhyay: And what would be the strategy on product tankers also for us, would we also like to replicate the MR strategy on product tankers where also the -?

Rahul Sheth: MR tankers are the other product tankers.

G. Shivakumar: Sorry, did you mean -?

Himanshu Upadhyay: Sorry, the crude carriers. Okay. I made a statement.

Rahul Sheth: So, we will look at that also because like one of the other analysts asked that we do have fewer crude tankers and product tankers and beyond a point, we wouldn't want to lose that capacity as well. So, we will explore switching those as well, but we still have some time before we need to make the decision.

Himanshu Upadhyay: See, this Great Drill Chetna, the cancellation of order what has happened, is there any minimum payment or cancellation fee which you will -?

G. Shivakumar: Sorry. It's not a cancellation of a contract or an order. It was a tender which was under processing which has got cancelled and is not being awarded.

Rahul Sheth: She is currently ready for the next contract, that tender got cancelled.

Moderator: We will take our next question from Dhruv Aggarwal from Niveshaay. Please go ahead.

Dhruv Aggarwal: Sir, how do you see the demand outlook in the offshore segment on the logistics and the drilling side, sir?

G. Shivakumar: So, the demand outlook is fine for the vessels we mentioned earlier. Even for the drilling rigs except for this one event, which is happening because that is such a large global customer, not for us, but in the market they were in the process of having 90 jack-up rigs, which is a very large proportion of the market. Otherwise, the sentiment for the vessels continues to be very strong. The rigs, as somebody previously said, the mood in the market might not be as positive as it was for the last year, year and a half. But again, that's something which changes, with these actions that could turn around also. Sentiment continues to be strong because of what's happening with oil prices. Oil prices have remained pretty high and E&P activity also continues to be very strong.

Dhruv Aggarwal: On the logistics side, how is it?

G. Shivakumar: It's running perfectly fine. The businesses are getting awarded at much higher levels than they were running at previously. So, sentiment is strong in the offshore logistics business. The vessels are running well, are getting priced at very strong rates.

Moderator: We will take our next question from Abhishek Nigam from Motilal Oswal. Please go ahead.

Abhishek Nigam: So, just on the delivery schedule for product tankers, do you have any visibility because that order book number is 15%-odd. So, I mean, I am just wondering if that segment is running into some trouble.

G. Shivakumar: Just one thing there nuance, which you have to see in the product tanker order book, a very large part of the product tanker order book is LR2s and while we talk about aging fleet, etc., typically, LR2s beyond a certain age tend to move, and you know that LR2s are basically Aframax sized tankers which have ability to carry clean petroleum products. Typically, after a certain age, LR2s move into the Aframax freight. So, they switch from being product tankers to crude tankers. And a very large part of the order book is LR2s. Even the ships which are on order, typically, owners, the cost to creating that option to trade as an LR2 is not very high. So, $1.5-2 million, on an Aframax tanker which probably costs $70 million to bid. So, typically people will just put that option onto their ships and build their ships as LR2s, so they can even trade them in the crude tanker market. So, a significant part of the product tanker order book is LR2s and could easily move into the crude tanker market. So, that's something to keep in mind.

Abhishek Nigam: And offshore has a pretty good show this quarter. So, is this number sustainable or the other way to ask is, is there any one-off over there which may not get attributed?

G. Shivakumar: There's one one-off which was 12-13 crores, which was a reversal of an impairment which we had taken earlier on one of the vessels. But otherwise, the significant event is the repricing of the Greater Charu, where the headline rate went up by about $30,000-odd a day. So, that was the one event. But yes, I think I mentioned earlier that the business is coming back to profitability with all the pricings that have happened in the last year, year and a half.

Abhishek Nigam: So, on this issue of rig suspensions in the Middle East, my understanding was that on a lot of those contracts basically they were suspended for a year and mobilizing the rig out of Middle East really takes a while especially if you have to go to say North America or if you have to come to Asia. And so, practically speaking, the incentive is not very high for those guys to move out because there's a big mobilization cost involved and then one year later you would still end up getting employed in the Middle East and everybody wants to be in the Middle East because that is really the center of action in oil. So, are you seeing sort of like a rig moving out or is it more like people are sort of more in a wait and watch mode for now?

G. Shivakumar: So, I saw at least one rig if I recall, right, being fixed into Egypt, which i's still the Middle East. We haven't followed what's happening with the specific rigs. But what you say is correct that people will tend to stay here unless they land a contract, they're not going to move the rigs into another region of speculation. So, if they bid and they get a contract, they could move, but they're not going to move on speculation. That's not the way the business works. So, they will probably like to stay here for some time and keep their position in we could call it the queue, it's not really a queue, but to just say that we are still hanging around here waiting for the contract. So, if the point you're making is, it's not likely to result in a glut of rigs in other markets, you're right, it is unlikely to result in a shift of rigs.

Moderator: We will take our next question from Kunal Tokas from Fair Value Capital. Please go ahead.

Kunal Tokas: My question is about the LPG carriers especially the strong order book that we see here, so the strong order book coupled with the relatively young age of each vessel and given how prone the shipping industry is to the capital cycle, do you foresee any risk of the capital cycle turning especially in the VLGC business?

G. Shivakumar: Yes, it is a possibility. So, just to give you an update on our business itself, typically our LPG carriers have run on time charters. We have recently repriced two of our vessels on time charter itself on two-year time charters and the repricing has happened at a significantly higher rate than previously. So, they are at about 40% higher than the previous rate. So, these two vessels will come off contract in the coming two to three months and will go on to the higher rates. We're not expressing necessarily a view on what could happen to the market. What we are saying is that our pricing on the contracts has improved significantly. I think what you're hinting at is that there could be an overbuilding of LPG ships. It is possible, it could happen where we don't know what could happen and what could trigger a drop or a change in the demand/supply balance for LPG ships, but it is possible because that happens in shipping cycles, especially very strong shipping cycles.

Rahul Sheth: But we have also seen in the past, sometimes the order book for LPG has been strong, but the demand has been stronger, and the market has sustained longer than we expected. But at least from our own position, we have contracted our VLGC fleet.

Kunal Tokas: In response to one of the questions you mentioned that you can easily be 5x the size that you are without tempting the overall balance of the market. So, what stops us from doing that and is it fair to assume that you will grow much faster in terms of your capacity, not necessarily the revenues, but in terms of your capacity when the market is in a downturn because then the asset prices will be much more attractive to you?

G. Shivakumar: Yes, a good question. The answer to your last question is yes, it is our intention, and we have the financial capacity and the balance sheet as well to grow significantly in the next downturn when the prices are right. So, yes, that is our intention. There is a lot of room to grow. And what I mentioned we have six crude tankers currently. Five years ago, we had 12 crude tankers, several of them were old and had to go. So, we were twice the size that we are currently just five years ago. As I said, we can easily grow to five times the size without really causing a dent or becoming too big. So, it can happen and as you rightly identify, it is our intention at the next opportune market, we will look to expand significantly.

Moderator: We will take some text questions. We have a text question from Shivan Sarvaiya from Humiviction Investment Advisers LLP. The first question is could you please provide the reasons for the increase in other income? What constitutes other income? And the second question is, as the markets tighten in the offshore segment, how has the cost of operating a rig or a vessel moved over the last 2-3 years, could you please quantify?

G. Shivakumar: Thank you for the question, Shivan. Most of the other income is treasury income. As you know, we have very significant cash balances which have built up a lot in the last two years as the markets have been very strong. What has also happened is that a large part of our money is kept in dollars and you know what has happened to dollar interest rates over the last year and a half. Basically, what has happened is that we have more dollars and we have the equivalent of $650 million currently including the rupees and the dollar. So, all of that goes into other income.

Rahul Sheth: And on the second question, I think maybe costs have gone up by 20%, 30% over the past 2-3 years. As the markets have tightened, the demand for the crew onboard the rigs and the offshore vessels has increased. Along with it, even general inflation in spare parts, stores, etc., for the vessels and the rigs have increased.

Moderator: The next question is from Narendra Khuthia from RoboCapital. What kind of revenue and margins are we looking at in the next two years?

G. Shivakumar: Yes. As I mentioned earlier, we do not forecast and we don't give guidance on revenue or margins or profits. A large part of our capacity is operating in the spot market, especially in shipping.

Moderator: The next text question is from Jinit Savla. Instead of paying out dividends, why can't we move towards share buybacks?

G. Shivakumar: We don't see the relationship really between dividends and share buybacks. Our buybacks are done as part of capital allocation. We look at buyback as the ability to buy into our business at a very cheap price, whenever those opportunities are available. It is not a replacement for dividend. Dividends are part of our cash flows that we are returning to our shareholders. So, we don't look buyback as a replacement for a dividend.

Moderator: The next question is from Rajesh Agarwal from Moneyore. Ship bought and sold. Are we net long from previous year 2023-2024 to current 2024-2025 in terms of revenue and absolute EBITDA after normalization in Panama Canal and Suez Canal. Will the overall transit time increase?

G. Shivakumar: So, I think there are several questions here. Our capacity for FY'24-25 as it stands today is more or less the same as it was in FY'23-24. That's the first one. In terms of revenue and absolute EBITDA, we don't know. As I said, we don't forecast revenue and EBITDA because the rates are very volatile, and a large part of our capacity is in the spot market. But if you have normalization in Panama Canal and Suez Canal, the transit time will reduce and reduce tonne-mile demand for ships.

Rahul Sheth: Panama Canal mainly has an impact on the gas carriers, while the Suez Canal mainly has an impact on the product tankers. So, it depends on. And it also depends to the level at which it is reversed, because is it reversing because there's been a lot of disruption because of the changes in the movement through the canal.

Moderator: We have a question from Harsh Chandaliya, an individual investor. Could you please throw some light on shadow fleet in the crude tanker segment and impact of recent U.S. sanctions on crude tanker segment in FY'25? Is the 18% aged fleet in crude tanker segment inclusive of shadow fleet?

Rahul Sheth: Yes. So, the 18% includes the shadow fleet of tankers.

G. Shivakumar: The U.S. sanctions that we have seen are for I think some small operators. So, far we don't see what impact they have because some of these ships just moved from one operator to the other. I don't think they have been very widespread sanctions.

Rahul Sheth: Those are referring to those individual ships sanctions.

G. Shivakumar: That's right.

Rahul Sheth: But the US has also been tightening the checks because you can carry Russian crude if you're below the price cap. But some operators, especially in the shadow tanker fleet were carrying crude over the price cap. So, the US government has been trying to make it tougher. So, a lot of players who have been trying to carry the Russian crude, there has been some impact with reduced Russian loadings.

Moderator: I'll read the next text question from Rajesh Khater, an individual investor. Does the normalized financials exclude the profit from sale of ships? And second question is, please tell more about the subsidiary in GIFT City.

G. Shivakumar: Noormalized financials include profit from sale of ships. We believe that this is a part of our normal business. The subsidiary in GIFT City is in the process of being set up. It is not yet operational. The intention is to do some shipping business through that subsidiary.

Moderator: The next question is from Darshan Patel, an individual investor. The first question is, since the tender for the offshore rig stands cancelled at the onset of monsoon season, how will it affect the operation of that particular rig? And the second question is where do you project the price of bunker oil for the next few quarters as compared to the previous few quarters?

G. Shivakumar: Yes, the operation of the rig continues as before. The current contract continues.

Rahul Sheth: So, generally we have seen that ONGC tends to extend the rig during the monsoon. We will know that in some time, whether they're going to redeliver it in the early part or the end of the monsoon. Of course, we have to work on the next contract for the rig. And on the bunker prices we actually do not do a forecast of where the prices are going to land up over the next few quarters.

Moderator: We will take the live questions now. We have a question from Devesh Jhawar, an individual investor. Please go ahead.

Devesh Jhawar: My question is regarding the rates and decision of fixing the vessel on the time charter. So, the rates currently as we are speaking, I think they are probably higher than the last quarter's average. So, would the management take a call on placing some product tankers on time charter, some part of the fleet on time charter? And secondly is in the presentation you pointed out that we are trading at a significant discount to our NAV. So, our cash earning yields are close to 19% and we have a lot of treasury lying idle. So, would we like to do a buyback, after buyback tax also it makes sense to do a part play as a capital allocation measure to do a small buyback, that would yield better in the future.

Rahul Sheth: So, on the product tanker fleet or at least in the group tanker fleet, so our preferences are generally to remain on the spot market. We have seen that often it is better to be in the spot than to take time charter cover and our balance sheet is generally very conservatively leveraged so that we can always take advantage of the spot market because that comes with its own risk. Having said that, we have taken some cover on a few of our product tankers as a general call on the market.

G. Shivakumar: Where we were getting very good rates, we have fixed out a couple of our ships. And we look at these transactions all the time; it depends on what opportunities come out. Now coming to the issue of the buyback, etc., you pointed out correctly that there is a significant tax leakage there. The cash yield is very tempting, yes. The concern is about what can happen if the prices come down, which is the prices of ships. So, it's not yet. We don't believe that including the cost of the buyback tax, etc., it's very tempting for us to do. We will wait for an opportunity. We believe that at some point we will get an opportunity to invest in ships at the prices that we like. So, we will wait for those opportunities for now.

Devesh Jhawar: And sir, lastly, not regarding the business of company, but as a sectoral question is, how are ship repair rates going forward, is the ship repair cost significantly higher from pre-COVID levels or no, they are just the pre-COVID cost plus some inflation?

Rahul Sheth: Yes, it's broadly pre-COVID cost plus some inflation.

Moderator: We will move on to the next question from Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: My question is, after the reprising of 12 offshore vessels which is coming now, what can the EBITDA go up incrementally from the last year?

G. Shivakumar: Again, I mentioned we don't give any guidance.

Rajesh Agarwal: I am not asking for the EBITDA guidance. Just because of repricing because we are already in the verge of repricing na, that is -

G. Shivakumar: We just don't have a practice of giving earnings guidance.

Rajesh Agarwal: I am not asking for the guidance. If it is repricing because it is difficult to understand, last year the EBITDA was 200 crores in offshore, after repricing it can be 300 or 400 crores, what?

G. Shivakumar: We believe that the EBITDA will be significantly higher because of the repricing happening at significantly higher rates.

Anjali Kumar: So, thank you everybody for joining in. And as usual, the transcript of this call will be up on our website very shortly. And of course, please feel free to reach out to our corp comm team for any other clarifications or details that you may want and thank you once again for joining.

Moderator: Ladies and gentlemen, that concludes this conference call. Thank you for joining us and you may now exit the meeting.