



“The Great Eastern Shipping Company Limited Earnings Conference Call”

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**MANAGEMENT: MR. G. SHIVAKUMAR – CHIEF FINANCIAL OFFICER
MS. ANJALI KUMAR – HEAD, CORPORATE
COMMUNICATIONS**

Moderator: Good evening, ladies and gentlemen. Thank you for standing by. Welcome to Great Eastern Shipping Earnings Call on declaration of its financial results for the quarter ended June 30, 2019. At this moment, all the participant lines are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press '*' and '1'. I now hand the conference over to Ms. Anjali Kumar – Head of Corporate Communications at The Great Eastern Shipping Company Limited to start the proceedings. Thank you and over to, Ms. Kumar.

Anjali Kumar: Good afternoon friends, welcome to the Q1 FY20 Conference Call and I am hoping that all of you have managed to get a hold of the results that we have announced earlier today and I would now like to hand over the call to our CFO Mr. Shivakumar to take us through the salient features and we can then discuss the Q&A. Over to you, Mr. Shivakumar.

G. Shivakumar: Good afternoon, everyone. And welcome to the Conference Call. Let's look at how the business did. Starting with crude tanker rates, if you see our average TCYs from our press release, you can see that crude tanker earned about \$15,000 a day approximately on average in Q1 FY20 down from about \$21,000 in Q4 FY19 that is immediately preceding quarter, but up very significantly from just about 11,000 in Q1 of FY19. So, crude tanker market has been a little bit stronger than it was in the previous year. Product tankers were more or less flat +/- \$1,000 per day on a sequential and on a Q1 over Q1 basis. The sector which was up sharply was the LPG carrier sector where rates went up all the way to \$50,000 to \$60,000 a day around end June - early July and which was a huge change from last year where it was languishing around \$10,000 a day. Even in the month of January it was probably just around \$10,000 to \$12,000 a day.

On the dry side: The ships earned lower than the previous year, but they have recovered from the lows which we saw in early 2019 after the Vale incident. Again, the recovery has happened towards the end of the quarter and the impact should hopefully be seen in the coming quarters on the earnings on the different types of ships.

On the results again we have a significant swing on account of the currency and derivatives. This time the currency has been more or less flat during the quarter. We started at 69.15 and ended at 69.03, but the derivative MTMs have moved because interest rates dropped significantly during the quarter. USD interest rates dropped by about 50 basis points for long-term interest rates and the MIFOR also dropped another 2025 basis points and this resulted in the MTM on derivatives. You will recall this is the swap we have on our long-term debentures. The MTM on the derivatives moved against us by about 110 crores.

On a net level you will see we have shown a loss on a consolidated basis as a result of this MTM impact. We saw a net loss of about Rs. 54 crores consolidated and Rs. 50 crores on a standalone basis, but obviously the business has done better than it had in the last year.

Coming to what drove earnings during the quarter:

Tanker oil demand has been quite weak, Low refinery margins, weak demand because of slower economic growth and a decline in refinery runs resulted in lower demand for oil shipments and therefore for tankers. The oil demand growth in the first half has probably been a little less than half a million barrels a day and that is quite a poor number really. The other impact came from the refineries which went into maintenance ahead of the IMO 2020 changeover due to the expected big middle distillate demand and as for refining runs they actually fell over Q2 2019, I am talking about the calendar year over the previous year. It fell by about 300,000 barrels per day and against this we had a 4% plus increase in the crude tanker fleet and 2.5% plus increase in the product tanker fleet in this 6-month period that is between Jan and July.

Now considering that, all of these sound like very bearish factors. It is quite heartening to see that crude tanker rates at least have been higher than in the previous year as I mentioned earlier today, and product tanker rates have been more or less around the same as the previous year. One factor to note here is that crude imports into the US dropped by almost a million barrels a day in the first 6 months of this year at the same time crude exports from the US went up by almost a million barrels a day. Now this would appear to be sort of balancing each other out, but it does not actually balance each other out. What has happened is that less ships are carrying oil into the US, which means less ships being available to carry oil out of the US, which means that somebody has to ballast from the far East in order to pick up that cargo and as all of you may be aware that ton mile impact of somebody doing a round trip from the far East loading in the US and coming back to the far East is very high.

Going forward we expect that IMO-related diesel demand and higher off hire days due to scrubber installations will likely support freight rates. We saw one estimate which said that about 2% to 2.5% of the crude tanker capacity effectively could be taken out in the last 4 to 5 months of the year just for scrubber fitment and the tanker market lives on these small changes in demand and supply and therefore we expect that this should have a positive impact as we go forward closer to the end of this calendar year. Again, on the positive side the crude tanker order book is currently under 10% of the fleet and the product tanker order book is at 7% of the fleet which is again at historical lows.

I mentioned earlier, the LPG market went up to almost \$60,000 a day on the spot market and again this is driven by large LPG volumes of LPG exports coming out of the US and coming to the far East which absorbed the fleet supply growth of 2.5% to 3% which we saw and not just absorbed but tightened the market significantly. So, that market continues to be strong, it has come off a little bit since then, but we are still at between \$40,000 and \$50,000 a day on the spot market. Unfortunately, all our ships were fixed on time charter. Now we have one vessel on the spot market VLGC. So, we hope to be able to take some advantage of it. During the quarter again and after the end of the quarter in dry-bulk we saw a sharp market recovery especially in cape-sizes. The market which was down to \$4,000 a day in the early part of the year in Q1 of calendar 2019, in July we saw cape spot market go up all the way to \$32,000, \$33,000 a day.

Again, one of the mines in Brazil which was closed down, the Brucutu mine was given permission to restart and that resulted in additional cargoes and therefore the tightening in the market. The other factor which people are using to explain the sudden tightness in the market is that there was a sudden shortage of capes in the Atlantic to pick up the Brazilian cargoes and so the market tightened very significantly because there was just a shortage of ships as quite a few ships were in dry-dock in the far East doing scrubber installation and this was the report that we saw. This filtered through to the smaller sizes as well. Kamsarmaxes also went up quite smartly to about \$14,000 to \$15,000 a day in the spot market. All of which happened around the June end - July and therefore is not yet in our results, but hopefully it will feed into our results going forward.

The dry-bulk fleet grew by about 1.7% during the (calendar) year and we expect that growth for the full year should be at around 3%. Scrapping was reasonably strong and let us see how that goes. The order book stands at about 11%. While the offshore market continues to be very challenging there are some visible signs of improvement in rates. The big event for us to report is that we have obtained a long-term contract for our Rig, Greatdrill Charu which comes off contract in first quarter of 2020 and it is at a significantly higher rate than the last pricing that we saw 6 months ago, so, that is an indicator of some recovery. In the vessels market as well we saw some recovery in the vessels market and now, we are seeing it in Jackup rigs as well.

During the quarter we delivered to the buyers our oldest VLGC which was contracted to sell in the month of January 2019. We have taken the opportunity to fix a few of our ships on charter especially the tankers because the time charter rates have gone up along with the optimism on IMO 2020. So, as part of managing the portfolio we have fixed out a few ships on charter. However, we continue to have a spot exposure which is in excess of 75% and probably closer to 80% on a one-year forward basis.

Coming to asset values we saw in the quarter a dry-bulk asset value was down very marginally may be 1% to 2%, while the tanker asset values moved up between 0% and 10% depending on the age and category of the vessel. Overall our fleet value went up about 2.5% during the year, which was about \$20-\$25 million and the NAV has therefore moved up to about Rs. 383 per share standalone. There is no change in the asset values in offshore, so the consolidated NAV range is between Rs. 450 and 475 a share. I think that brings me to the end of the prepared statement. We are happy to take questions and discuss what has happened in the market and anything else you would like to know about our results.

Moderator:

Thank you very much. The first question is from the line of Rajesh Kater an Individual Investor. Please go ahead.



- Rajesh Kater:** I have four questions if you can take all four of them it will be great. First you mentioned about the MTM losses, so just want to know like whether this MTM losses will continue in the next one, two quarters how do you see them?
- G. Shivakumar:** So, this we do not know it depends on how interest rates moves. It is because interest rate came down. So, for instance the ten year US Interest Rate Swap came down by about 50 basis points last quarter to about 1.8%.
- Rajesh Kater:** So, what is your outlook I mean?
- G. Shivakumar:** So, we are not experts on interest rates so I cannot really give an outlook for the short term. What we can see is that it is slightly down from there. So, just as a broad thumb rule, when interest rates go down our MTM goes against us because basically we have fixed interest rates.
- Rajesh Kater:** My second question is like are any of your ships are impacted by the Iran route because we keep hearing that sometimes there are some ships which are seized by Iran, so are any of the ships taking that route and is there any risk?
- G. Shivakumar:** You cannot avoid that route, so we have ships transiting there all the time. Again you take precautions and it is not an issue. We have not faced any issues at all.
- Rajesh Kater:** My third question is like you have announced a buyback from the open market for around Rs. 100 crores, so like what the rational of the timing of the buyback at this stage I mean does the company feel that good times are around the corner and like what was the rationale or internal thought process for that?
- G. Shivakumar:** So, we do not time the market due to good times being around the corner. All we see is that something is cheap and we do not try to time it very close to the recovery. We see something which is very cheap. I mentioned that our net asset value is somewhere around Rs. 450 a share and we saw stock trading below Rs. 300 a share, so a significant discount was being offered by the market. So, we thought that we should take advantage of that discount.
- Rajesh Kater:** So, like have you actually done the buyback or like it is going on or will it take time?
- G. Shivakumar:** We have completed so far approximately 20 crores out of the 100 crores that we had targeted.
- Moderator:** The next question is from the line of Nirav Shah GeeCee Holdings LLP. Please go ahead.
- Nirav Shah:** Sir you mentioned that LPG ships currently hovering around 40k to 50k and you also mentioned that you have one spot and balance I believe three are on charter, so can you just give a broad schedule of when are they coming off charter and how do you see the rates at that point of time

I mean I understand that it is very volatile, but just your view on how do you see that market based on the timelines of these vessels coming of charter?

G. Shivakumar: So, we have three VLGC and two MGCs. Now what I have been talking about is the VLGC spot markets. The MGC spot market went up, but it did not go up anything like what we saw in VLGCs. Our two MGCs the time charter rates went up, we have fixed them out on time charter. We have taken the opportunity to fix them out on time charter. Out of the three VLGCs one has just completed a time charter and is now in the spot market. The other two VLGCs are on time charter and will complete the time charters end of 2019 or early 2020. So, they will come out of charter within the next 6 months or so and therefore will come into the spot market. You asked me for a forecast on what we think the market will be at that time I do not know again as I said we do not know market timing. We think that the market should get strong. The market could possibly get tighter as we get into IMO 2020 implementation, but its anybody's guess what the spot market will be, we did not think it would be 50,000 today so you should not take our view on what it would be three months down the road.

Nirav Shah: But anything conservative is good enough?

G. Shivakumar: Yes.

Nirav Shah: On the buyback I believe from the data posted on your website we stopped purchase of buyback from 4th of July I mean which is coinciding with the budget date slightly off the business question, but I believe you will be waiting clarity on the tax or something, but we have a minimum buyback of 50%, so in case I mean if you get clarity that you have to pay tax still you would go ahead and do the minimum 50% or there is a clause of something like force majeure or something which you can use to not utilize up to that percent?

G. Shivakumar: I do not think there is such a fine legal reading in this. Broadly, you are right we stopped doing it because we wanted to get guidance from the Board as to what we should do considering the changed circumstances. We have not factored in this cost of 23% when we proposed a buyback. So, the guidance that we have is that we will continue with the buyback. In the meantime, we have made representations to the ministry to the tax authority that an old buyback which is already in progress should not be subject to this tax, but in any case we will be starting off with our buyback.

Nirav Shah: Just a last question I mean your opening remarks in the offshore market so if you can just again brief and give your outlook over there?

G. Shivakumar: Now the offshore market has been slowly and steadily strengthening again. It is a function of oil prices as well because even though it does not immediately impact, it affects the sentiment of the market, The rates have been going up, they went down to abysmal levels, but now they have been going up and we saw significant improvement in the pricing of our rate in a recent tender,

so 60% plus improvement in the pricing and that is one good sign that at least we are past the really abysmal rates that we had seen earlier 6 months ago. So, just to give you a flavor of what the situation is like- about 2 years ago if there was a tender for x rigs in India in a particular tender you would probably get 1.5 to 2x rigs bidding for it sometimes 3 x rigs bidding for it that was about three years ago. This time there was a requirement for 6 rigs and there were only 6 rigs which actually bid for that business. So, the oversupply seems to be getting reduced. There has been a lot of removal from the fleet either by scrapping or converting it to non-drilling functions. So, that is sort of removing the part of the oversupply and hopefully as demand comes back, we will see more tightening in the market.

Nirav Shah: I mean the quarter that we won the deployment will happen in first quarter of calendar year 2020?

G. Shivakumar: Not in the first quarter, by early in the second quarter it should happen. See the contracts gets over sometime in March between contracts we normally spend about 45 to 50 days for regular maintenance work and sometime in end April early May we should be going back into the new contact.

Nirav Shah: Sir any reason why this tendering happens so quickly because last two years we have seen that it always gets delayed and it was just in time I mean just few months ahead of the date, but this time around ONGC has come out with a tender for next year so early?

G. Shivakumar: I do not know why they take the calls that they take, but it is going to be wise if the rates are going to go up in the next 3 to 6 months maybe it is good to lock in the capacity today before the market goes up, but I do not know the reason why they came in early. Again, it is good for them to lock in this capacity early. It is small part of their overall cost and it is good to lock in the capacity because they need to do the work and they should have the capacity.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: So, you know I just wanted to understand that as per your annual report you clearly mention two criteria for the buyback – one is the heavy discount to NAV which is pretty much a myth and the second being the NAV being at a cyclical low point. Now this is where I want to understand actually why do you think that current NAV is at a cyclical low point, what are two or three parameters that you look at the financial or qualitative?

G: Shivakumar: So, there is no qualitative thing in this maybe just look at the historical data. The historical value of a modern trailing rig now, the historical value of a bulk carrier or a product tanker it is at a very low point in the context of the last 20 years history. So, that is where we get it from you are at and that is what goes into NAV right. We are taking the market values of the assets and that is what goes into the NAV. So, we just look at the last 20 years price range if you are at the lower

end of the price range, bottom one-third of that price range, makes me say that the prices are historically at a low level.

Vaibhav Badjatya: So, do you think that cost of building new ship or new carrier have reduced a lot in last 5-6 years or it is pretty much the same I mean to say if we take the replacement cost as a reference point how that replacement cost has moved, has it substantially reduced or it is not reduced?

G. Shivakumar: No it is not reduced at all. There is no great efficiency gain which is coming into the ship building that technology doesn't change that much no change in the cost of building a rig or a vessel. Again, if you mean the cost to the ship builder or the cost to the customer pricing has not changed that much. I would say Suezmax 5 years ago new building was probably \$60 plus million it continuous to be \$60 plus million. In fact, a VLGC new building probably cost more than it did in 2014.

Vaibhav Badjatya: The second question is that you know again in the annual report you have mentioned that you know the government notification regarding removing preference for Indian flagged ships is currently on a stay by the court I just want to know that what is the tenure of this stay and which court has granted this day?

G. Shivakumar: It is a Delhi high court stay and is expected to be heard this week.

Vaibhav Badjatya: For the review of the stay or stay is there for some time?

G. Shivakumar: The argument will be heard and then they will decide on merits.

Modderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities Limited. Please go ahead.

Bhavin Gandhi: So, firstly, just on the offshore bit again was there some down time on the rigs in this quarter as well?

G. Shivakumar: We went off contract for the Chitra, We went off contract in very end of March and we went back on contract on 17th of May and I think about 48 or 50 days we were off.

Bhavin Gandhi: So, sir if I were to look at the profitability of the offshore segment now and given the fact that Charu has gone into much better rate which obviously will be lower than the previous rate, would you say that the offshore earnings is pretty much bottomed out here or you think there is some way to go from here as well?

G. Shivakumar: You mean not the market rates but our earnings.

Bhavin Gandhi: Your rates given where your rates are?

- G. Shivakumar:** Yes it is not bottomed out for the simple reason that the current contract, so let us look at the rigs only the rigs- they are the big guys right in this whole thing. So, we are fixed at low rates on 3 rigs currently, 3 rigs are earning a very low rate, the lowest rate at the bottom of the market fixed at currently earning that rate. The Charu is fixed at a pre-market fall rate which is a 2013 rate. She is going to come off contract and go into a rate which is much lower than the 2013 rate and in FY21 3 rigs will be working at a low rate and Charu will have a lower rate. So, it is not bottomed out because one change which is happening in the rigs between FY20 and FY21 is that Charu is going to be priced down.
- Bhavin Gandhi:** And sir on given you know how the asset prices have behaved how are you looking capital deployment now incrementally?
- G. Shivakumar:** Capital deployment in shipping assets is sort of unlikely unless suddenly something happens to assets prices tomorrow. As it stands today at these values we are not really buyers for ships either bulk carriers or crude tanker and LPG of course must have gone up, There are very few ships transacted, but if ships have been earning \$50,000 a day for the last month and half - two months then they have definitely gone up. We have not seen any transactions yet. So, we are not really there to buy anything. We have invested in lot of capacity and we are quite happy with the amount of capacity that we have. At max maybe if we get a cheap product tanker we will go and buy it, but that is about it, we are not there to do too much of CAPEX. The only thing that seems cheap to us even in June was the stock.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital Pvt. Ltd. Please go ahead.
- Vikram Suryavanshi:** Sir, basically this scrubber how we are placed in out of a total number of ships we plan to have scrubber and where we are in?
- G. Shivakumar:** So, we have total of 7 where we have committed to fit scrubber. One was completed in May successfully. One will go into drydock this month so that is two. The last ship which is going to fit the scrubber is probably the gas carrier which will go in for the scrubber fitment in Jan-Feb 2020. The remaining four Suezmaxes will go between September and November for fitment of the scrubber.
- Vikram Suryavanshi:** So, that time are we also having a ballast water attachment or at the same time in dry-docking?
- G. Shivakumar:** Yes.
- Vikram Suryavanshi:** So, we will have additional cost for that including scrubber?

- G. Shivakumar:** That is correct but that is all capitalized cost. If you are looking at the P&L those are all capitalized cost even dry-dock nowadays is capitalized as per the new accounting standards. It is capitalized and written-off over the period till the next dry-dock.
- Vikram Suryavanshi:** And was there any dry-docking apart from this one in normal other vessels for this quarter?
- G. Shivakumar:** Yes last quarter we did total of 4 dry-dockings. We have a pretty heavy year for dry-docking this year. We had 4 in the last quarter. We are just finishing one and another one. So, this quarter again we will have 4 or 5 and a next quarter again along with the scrubber fitment another 4 or 5 will be dry-docked. So, it is a very busy time for dry-docking for us. I think within this year we will be doing 18 dry-dock in this financial year.
- Vikram Suryavanshi:** Yes that looks like because from a result I thought it would be major year for dry-docking?
- G. Shivakumar:** Good thing is if then the market is strong in the next year you are not spending time in dry-dock and you are earning money.
- Vikram Suryavanshi:** Any idea how much we will be spending on all this dry-dockings this year?
- G. Shivakumar:** Total amount for dry-docking just for pure dry-docking I am only talking about the dry-dock part of the expenditure not the scrubber and ballast water and all that, we should be spending about closer to \$30 million
- Moderator:** Thank you. The next question is from the line of Rajesh Kater, an Individual Investor. Please go ahead.
- Rajesh Kater:** So, like I just wanted to understand what is the range of price fluctuation in freight rates for the various ships that you have like product tankers, crude tankers, cape-sizes what is the range of price fluctuation in the freight rates which can happen?
- G. Shivakumar:** Let me just give you some numbers, So cape-sizes I mentioned earlier this year were down to \$4000 a day, two weeks ago they were about \$33,000 a day. Crude tanker which in FY19 itself, we have done voyages at \$45,000-\$50,000 a day and we have done voyages at less than \$10,000 a day. The gas carrier which were in earlier part of this year were \$6,000-\$7,000 a day were earning between \$50,000 and \$60,000 a day in the spot market last month. The only sector which does not fluctuate as much is in the MR tankers which in a low market go down to 8,000 and a high market go up to maybe \$20,000 to \$22,000. So, there is a lot of fluctuation still there are the huge operating leverage in this business so all of them are very volatile.
- Rajesh Kater:** So, 3x to 4x fluctuation is quite common and even 8x to 10x can easily happen in the fluctuation market.

G. Shivakumar: Yes, absolutely.

Rajesh Kater: Sir my next question is like I was studying the company history like sometime between 2000 and 2005 the company's profitability improved very sharply like in exponentially I think between 3x to 6x or something like that. Now given the current background that whenever it happens so you will be coming out of a 10 to 15 years slowdown or on overcapacity, do you think those times I mean in a very short period when you can see an exponential improvement whenever that happens I mean it may not happen this year or next year, but whenever that happens is it the probability?

G. Shivakumar: Anything can happen if your rates move like this everything goes to the bottom-line your cost do not change. Everything just goes straight to the bottom line. Let me just give an example right if your rates move up on an average by \$5,000 a day and I am not making a forecast I am just talking about a number just to illustrate a point with 47 ships we have approximately 17,000 operating days in a year. Now if you just take \$5,000 a day extra on this, it goes straight from top line down to the bottom line because your cost structure is fixed, operating expenses are fixed, interest, depreciation everything is already fixed. It is not going to change because you are earning \$5,000 per day extra that is \$85 million that we are talking about in a year which is just 600 crores at today's exchange rate. So, that is the kind of thing which can easily happen, \$5,000 a day can easily happen again, it does not happen easily for the smaller ships like the MRs or even say a Supramax bulk carrier. Let us look at what drove that growth in our profitability in 2000-2005. 2003 to 2008 was a general boom for everything in the market and it was specifically a commodities boom day rates went up to very high levels, but what also happened is the company itself invested in a large number of ships in 2003-2004. We happened to buy ships just before the market went up. We did a big expansion where we doubled our fleet in that period and therefore, we were able to catch that boom and capitalize on it in a big way. We try to recreate, we cannot create that market again, but we will recreate that capacity and that is what we did between 2016 and 2018 where we bought a lot of ships that is our principle in this, you have to have capacity in order to take advantage of a strong market.

Rajesh Kater: And sir lastly, I had a suggestion like as an individual investor if we miss out to attend the concall getting hold of the transcripts takes a lot of time like I have seen that the transcripts are republished maybe after 15-20 days or after one month by which time we may have lost out on significant price action, so basically like a good companies with good management they do one of two things either they make the recordings of the concall available for the next 5-6 days like some IT companies do or they publish the transcript within a weeks' period. So, if your company could take it up as suggestion it may be very helpful?

Anjali Kumar: I am not sure which companies you are referring to, but ours have never been more than a week. It is between 5 and 7 days latest absolutely outermost.



- Rajesh Kater:** Because I have seen some times I do not have the dates right now, but sometimes I found it difficult, so like if you could take a suggestion?
- G. Shivakumar:** In any case it will be done within a week from the calls.
- Anjali Kumar:** Always our endeavor is to put it up in as quick time as possible 3 to 5 days is normally where we target, but sometimes it just goes up to a week because sometimes the transcripts that come is fairly garbled and we need to just edit it a bit.
- Moderator:** Thank you. The next question is from the line of Ranjit Kothari, an Individual Investor. Please go ahead.
- Ranjit Kothari:** Sir, my question was regarding other expenses. I wanted to know the bifurcation of rates as well as what is driving such a change in that other expenses?
- G. Shivakumar:** Other expenses will include a lot of overhead expenses which does not come under the other heads which are provided there in the format. So, mainly repairs and maintenance expenses of the fleet, sometime hire or chartered ships, insurance expense, travelling expenses those kinds of expenses which do not come under any of the other heads and other admin expenses.
- Ranjit Kothari:** The expenses were down by around 80 crores if I see QoQ so I wanted to understand like what the reasons for being low or which cost has come down?
- G. Shivakumar:** We had in-chartered ships last year and we had a contract which we were performing by using in-chartered ships. So, when we hire a ship in, it goes under other expenses. So, last time we had hired ships in we had a contract which we had to perform for a customer. Some we performed on our ships and some we in-chartered ships and that expense goes in other expenses.
- Moderator:** Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir, what we understand is that in terms of tanker though the fleet growth continuous to be moderate, we are seeing that order book is now at an all-time low. Scrappage until recently was also high, now it has picked up. But then what is preventing a rate increase in tanker this the demand. So, sir in oil demand side what should we wait for to see that pick up, what are the top three or five variables you are monitoring?
- G. Shivakumar:** Okay we can hope for it. So, one is IMO 2020 implementation will almost certainly lead to an increase in oil demand so that is one. So, 6 months ago we would have expected that you will have normal oil demand growth which is not considering IMO 2020 of a little over a million barrels a day and then on top of that you have the IMO 2020 impact and therefore you have much higher demand growth for oil. Currently because of the economic situation, the growth in oil

demand has been quite poor. I think I mentioned less than half a million barrels a day demand growth for the core products.

Adesh Mehta: So, that is almost a 50% decline?

G. Shivakumar: It is 50% of what was expected and it might be a little lower than that also. So, it has been poor. Now what is driving this economic growth because we can see it is in middle distillate demand. So, middle distillate which is basically diesel is an industrial commodity and if economic growth is poor then you will have low diesel demand and that is what seems to be happening. So, we have had poor economic growth. The one thing to look out for is something happens on this trade war business, but what we know is what we read in the paper and in reports. If that get settled then hopefully the general economic growth will improve and therefore oil demand, but that is a big worry really.

Adesh Mehta: So, till the clarity emerges on your global growth, we can see these trends continuing?

G Shivakumar: That is correct, but one thing I will say you mentioned when you started at the fleet growth has been moderate, we had 4.5% fleet growth in crude tanker in the first half of this year that is very-very high fleet growth.

Adesh Mehta: But then sir what is our outlook here? Will it moderate in the second half?

G. Shivakumar: It will moderate because it is expected to moderate in the second half. I think the main delivery hump which we had we have passed that. And as I mentioned we find it quite encouraging that even in the phase of such major fleet growth, rates have not collapsed. With that kind of fleet growth and when you just look at 4.5% fleet growth and very little demand growth, rates should have collapsed, but it has not happened. So, that means that there is some underlying tightness in the market which is keeping the market up which means that when the market demand comes back then the market is going to get really tight.

Adesh Mehta: But then we saw scrapping also declined significantly in the first half.

G. Shivakumar: Everybody is very positive on IMO 2020. Scrapping has declined significantly. There are very few modern ships available for sale especially crude tankers. Time charter rates have gone up, asset prices have gone up despite the market being not great. So, I think there is generally lot of optimism in the outlook for this IMO 2020 business. And that is sort of keeping people from scrapping their ships because everybody has got the same view. Again, if IMO 2020 disappoints, then it is like a big event which people are expecting to be bullish and suddenly if it does not deliver then you would find a lot of people heading for the exit. But as it stands everybody is positive, time charter rates are up and so that is where we fixed out some ships.



- Adesh Mehta:** But then sir despite everyone being positive, we still have not seen the second-hand prices go up significantly, so may be that can just be the next level of optimism which we should be watching out for?
- G. Shivakumar:** Second-hand prices have gone up.
- Adesh Mehta:** But only by 5%-7%.
- G. Shivakumar:** Yes correct you are right. So, yes, they have not gone up, so people are not yet so bullish that they are buying in a big way, but they are holding on to their ships. Again, I will say price benchmarks have not been set because there will be no transaction because nobody is really there to sell a crude tanker today especially if you have a 5-10 year old crude tanker. We are not really there to sell those ships that is why prices are not getting established. I do not know what the prices are, but this is an estimate of the price. You never know if suddenly somebody comes and demands 5% extra to sell a ship, somebody may well pay it also. Today the benchmark values are not very high.
- Adesh Mehta:** So, the market is still lacking in terms of liquidity now?
- G. Shivakumar:** No, it is not lacking, it is just that people are positive so they are holding back their ship. If you want to buy an older ship you can buy it. If you want to buy a 15-year-old crude tanker or a 17-year-old crude tanker it is available. If you are willing to make some compromises on the quality of the ship you can probably still get one, but you want to make that a good standard ship, not really.
- Adesh Mehta:** So, then the 5-year-old to 10-year-old ones are the ones which are harder to get now.
- G. Shivakumar:** That is correct, the modern ships people are not giving them up very easily. Again, it is also that a lot of these ships are scheduled for scrubber fitment. If I have decided to fit my ship with a scrubber I am not going to go out and sell it today. I have ordered the scrubber; I booked a dry-dock slot then I would not sell it today.
- Adesh Mehta:** And sir I was also seeing that in terms of net revenues we have done a 15% kind of YoY growth, but when I see our revenue days, they have actually declined by 2%, our time charter yields have gone up only by 4% and the USD-INR impact is only around 4%. So, it does not add up sir.
- G. Shivakumar:** One moment I am not able to see these numbers.
- Adesh Mehta:** So, I am just summing up the growth rates of revenue days, TCY and USD-INR it is not adding up to the net revenues?
- G. Shivakumar:** I am not seeing the net revenues up by 15%. Did you say the net revenues numbers are up 15%?



- Adesh Mehta:** Yes.
- G. Shivakumar:** In the results no, I do not see it up. It is sort of a flattish to the consolidated is down.
- Adesh Mehta:** I am talking about standalone?
- G. Shivakumar:** Yes standalone revenue from operations 581 going to 589 crores.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from Honesty & Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** Just a follow up on the buyback. What I am trying to understand is that why this is just a 100 crores buyback because we rarely get such an opportunity and if I turn the tables I would really think that why I would do just 100 crores buyback because on a 3,500 crores market cap 100 crores buyback does not go anywhere. If it is really good opportunity what has led you to just announce for 100 crores only not for 500 crores or 600 crores kind of numbers?
- G. Shivakumar:** First of all, I think only 10% you can do with a board approval, but importantly we looked at how much we can afford to spend in this because as I mentioned we are not really there to buy ships either. We have done a lot of CAPEX in the last three years and we are waiting for earnings to revive. And therefore, we said that this is the amount that we can afford to put away for this. We have lot of repayments in this year as well. We have a \$160 million of repayments on a standalone basis and on a consolidated basis about 210 million. So, when we are conserving our resources for those because while we are quite positive for IMO 2020 impact on shipping markets, we could be wrong and it could be disappointing and so we decided that this is all we can spare for now considering the risks which we are facing. Let me tell you that it was a very tempting price, but we are being disciplined in allocating capital to it.
- Vaibhav Badjatya:** And just the last question so again from the annual report, in annual report it is clearly mentioned that you are pretty positive on IMO 2020 in short-to-medium term. I was just wondering why the long-term is missing there?
- G. Shivakumar:** See the IMO 2020 impact will wear-off after sometime and this is what happens in the long-term in the market. So, for 2003 to 2008 when the market just kept going up enough because demand grew so fast, we have had most of the boons that we have had. Since then it has lasted only 1 to 2 years max. This is because there is a lot of ship building capacity still and if you have a very strong market then people order ships and then it is over because then supply comes in and takes off and then pulls the market down again. So, what we know is for now this IMO 2020 will have a positive impact, but beyond that we need something much bigger which is very strong economic growth and commodities demand and we do not see that in the current scenario.

Moderator: Thank you. The next question is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.

Ankit Panchmatia: Sir this is regarding this IMO 2020 so there have been certain countries like Indonesia who has been kind of trying to surpass the rule around allowing domestic companies to use high Sulphur fuel, so is there any possibility wherein the other countries also would like or would tend to surpass this IMO 2020 regulation?

G. Shivakumar: I do not know who is thinking how but let us look at on what basis they have done this. The regulation does not give any leeway to any of the flag state so they have done it as a flag state saying local ships. It does not give any leeway to the flag state to make any dilution of the regulation. However, in practice you can give a waiver for purely coastal. So, let us say that my only trade is that I am operating a ship and all the ship does is it goes from Mumbai to Chennai and back **along the coast only** and is never going to touch any foreign port how is this to be implemented. IMO 2020 is to be implemented by every port state checking. So, whenever I call at a port, they are supposed to check whether I have complied with the Sulphur emission norm. Now supposing the Indian authorities say I am not going to check it either at Mumbai or at Chennai you are free to do whatever you want then this ship can in theory not comply with IMO 2020 and that is what I have heard as an explanation for Indonesia and they have also said it is for the domestic trade. However, if you go and call at a foreign port then you are in trouble because unless they have also agreed that they will not enforce it. So, this is the status and only if you are in a domestic trade you may get away with this if your flag state itself says I am not going to implement it at all.

Ankit Panchmatia: But sir your view according to you how the refineries ready to produce this kind of quantity which has been required?

G. Shivakumar: Now that general oil demand is not been very high it looks like they will be prepared. I think they have gone into turnaround. I think they have reconfigured their capacity to produce to maximize middle distillate production and that is why their refineries are offline for two to three months in the last quarter. They are all coming back now. They will find a way to produce it whether it is a blended fuel oil with low Sulphur or a gas oil they will produce it somehow. It is just a question of finding the clearing prices.

Ankit Panchmatia: And sir one question regarding this sir we have been bullish on the tanker market for such a long time. Our 90% of the tonnage was on spot basis since past 1.5 years to 2 years and now when the good times are here we are planning to shift some of our tonnage to time charter basis. So, sir what did your view on this strategy of yours to kind of not wait more for to get the spot higher?

G. Shivakumar: So, it is doing a little bit at a time, do it gradually. We cannot call the top of the market when we see a good rate, we will fix one ship we still have 7 ships of the same kind. So, the next time we see another \$1,000 per day up or \$2,000 per day up, we will fix another ship if it goes up further,

we will fix the amount that is what we do we cannot call the top of the market. So, at various levels we will just keep booking some, sort of not book profits, but locking in some capacity.

Moderator: Thank you. The next question is from the line of Govind Saboo from IndiaNivesh Ltd. Please go ahead.

Govind Saboo: Sir, my question is regarding this offshore business, you mentioned earlier that we are into a structural downturn and we have not reached the bottom yet and FY21 may be worse on the pricing front and which will also reflect in the margins, so how do you see this?

G. Shivakumar: I think the question which was asked to which I gave that reply was about our P&L. I think we have seen the bottom of the market. We are past the bottom of the market. We have gone down to very low levels and now we have moved up from those levels so that is the thing. So, the market has already seen the bottom and it has moved higher there. The question was about our P&L itself where depending on when you reprice because there are leads and lags in this. So, the market itself I think is passed its bottom.

Govind Saboo: But how much time will it take for us to catch up the market?

G. Shivakumar: Generally, the lead is 1 to 3 years because you fix a contract it is up to 3 years. We are pricing the rigs every year that is how it has turned out. So, we have done the pricing of 2020. Now we have two rigs to be priced in 2021. We have another rig to be priced in 2022. So, I was mentioning about fixing the vessels every year we will fix one or two rigs and if the rate is up then it is good for us.

Moderator: Thank you. As there are no further questions. I will now hand the conference to Ms. Anjali Kumar for closing comments.

G. Shivakumar: Thank you very much everybody for your attendance and for your questions and for giving us the opportunity to clarify on all your questions. As always, the transcript will be uploaded within the next few days. We always welcome interactions or any further questions that you may have. Thank you.

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