The Great Eastern Shipping Company Ltd.
Earnings Conference Call
(May 8, 2009)

Moderator: Good evening Ladies and Gentlemen. Thank you for standing by. Welcome to the Great Eastern Shipping Earnings call on declaration of its audit account for the financial year ended March 31st, 2009. At this moment, all participants are in the listen-only mode. Later we will conduct the question and answer session. At that time if you have a question please press * and 1. I now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communication at the Great Eastern Shipping Company Limited to start the proceedings. Over to you Ms. Kumar.

Anjali Kumar: Thank you. Good evening, Ladies and Gentlemen. On behalf of Great Eastern Shipping, I welcome you all to this call for our Q4 and FY09 results. Today we have with us our Deputy Chairman and Managing Director, Mr. Bharat Sheth and our Chief Financial Officer Mr. G. Shivakumar along with the entire team of our management. Mr. Shivakumar our CFO will give up the brief snap shot of the financial performance of the company after which we shall take up question and answers. Mr. Shivakumar over to you.

Shivakumar: Good afternoon I assume that all of you have got press release of the result and I will run through it from top to bottom and point out any significant items that may be there. First of all I will start with the bottom line. This is the most profitable year ever for Great Eastern Shipping. We have ended with a profit of Rs.1,384 crs versus Rs.1,356 crs last year and that is why despite of 14.5% drop in revenue days owing to the strong spot markets in the first half of this year, the top line increased by almost 10% despite the drop in the revenue days and another significant factor that contributed to this performance was that we had 57% of our operating days on spot vis-à-vis 42% in the previous year.

The profit on sale of ships was lower by about Rs 35 crs. We sold more vessels than the previous year but these vessels are smaller. We sold nine vessels this year as against 5 vessels in previous year. The profit of sale was lower by Rs 35 crs also reflecting the drop in values of vessels over the last year or so. Dry docking cost was up about 20% reflecting an increase in the number of dry dockings during the year and operating expenses were also up marginally despite the drop in the operating days. This is mainly due to the rupee depreciation versus the dollar. Since most of our operating expenses are paid or denominated in dollars since we operate in the international markets and we have to compete for these resources against international operator.

On a PBDIT basis, we were up excluding profit on sale from Rs1,270 crs to Rs1,470 crs which is about a 15% increase. On the other income front, we were much higher. This included a one time profit on sale of one of the investments that we did that was recorded in the second quarter and apart from that the other significant item was the exchange difference. This is the revenue that we recognize on revaluation of our foreign currency balances. A substantial portion of our cash equivalent is now being held in foreign currency accounts mainly US dollar and as a result this has been recognized in the profit and loss account and this is contributed substantially to the other income.

Depreciation and interest costs were marginally higher during the year. We did have one unusual item which is there appearing on our results which is the impairment. We last did an impairment about three years ago which was on three dry bulk carriers. It transpired that one of the vessels value had been impaired substantially from the book value and we have taken this Rs70 crs hit on account of the impairment of that vessel. On exceptional items, the note explains the exceptional item. This apart from the Rs14.85 crs which we recognized in the last quarter that is Q3 which was relating to cost on cancellation of contracts as cancellation done by us as well as done by counter parties. This is a net cost which we recognized last quarter.

Apart from that number, all the numbers in the exceptional items refer to the AS-11 impact of revaluation of foreign currency loans which was taken in the P&L account up to the first quarter of this financial year and we have reversed the negative that we took in the first quarter of this financial year in accordance with the ministry's notification on the amended Accounting Standard 11 which now permits us to take the difference in the value of the foreign currency loans to the carrying cost of the asset which in-affected the same treatment that existed up to March 2007. We have therefore taken the difference in the cost of foreign currency loans directly to the carrying cost of the asset. You will see from the notes that this has had an impact of Rs 517 crs on our profits for the year. This changed in the accounting treatment. We have also reversed in keeping with the amended accounting standard. We have also reversed the last year's impact of the revaluation of loans which was a positive impact. We have reversed it from the general reserve and therefore our net worth stands reduced to that extent. That number is Rs122 crs which is also stated in the notes and apart from that the tax provision is around the same as last year. We got a refund of Rs10 crs for some of our old taxes paid.

We will continue with the hedge accounting treatment. You will see another note with the results. We continue with the hedge accounting treatment for derivative's transaction. We have derivatives on foreign currency, on interest rates swaps and on bunkers and the mark-to-market losses or gains on these derivatives are to be taken to the hedging reserve account and taken to the P&L account at the time when they are crystallized and settled and there is an amount of Rs365 crs which is being transferred to the hedging reserve account on account of the mark-to-market losses on these derivatives as on 31st March, 2009.

Coming to the consolidated results only one thing that I will point out because this has been a matter for interest for which a lot of questions have come in the past relating to one of our subsidiaries Greatship India Limited which is the offshore oil field services business. It has not yet reached its full size but it is now reaching its full size so it has a significant contribution to the consolidated results. However they have had a rig that they have in-charted coming into operations in the very end of March and all the initial costs have already been taken in the year ended March 2009 and therefore the effect has not yet been felt in the results. Now I will hand over to Anjali again for further proceedings.

Anjali Kumar: We can now throw the floor open for questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. We have our first question from Ms. Swati Pandey from Reuters.

Swati Pandey: I wanted to know this impairment on certain asset of Rs70 Crs and your loss on sale of ship. Is it because of this impairment?

Bharat Sheth: No the loss on sale of ship is a vessel which we actually sold and delivered where the price at which we sold was less than the book value so that is the actual cash loss. As far as the impairment is concerned it is a non-cash item. What we do is we go through the fleet list every quarter and wherever the market value of the asset is below the book value we test it whether it requires impairment and the way we impair it is we determine a present value of the asset by taking a string of future cash flows based on 10-year averages and if then the present value is also below the book value then the difference is impaired.

Swati Pandey: Okay and what would your CAPEX be for 2009 and 2010?

Bharat Sheth: For 2009 we add approximately $52 million.

Swati Pandey: $52mn would be how many vessels tonnage?

Bharat Sheth: One ship.

Swati Pandey: It is a tanker?

Bharat Sheth: Yes, we get delivery sometime in June.

Swati Pandey: Have you planned anything apart from this one vessel.

Bharat Sheth: Not for this year. Then for next year we have phase in of about $135 mn and in FY12 it is $350 mn.

Swati Pandey: And what is your spot and contract ratio for tanker and dry bulk?

Bharat Sheth: Approximately just about 57% is spot and 43% is on contract.

Swati Pandey: This is for the tanker?

Bharat Sheth: No total.

Swati Pandey: Okay and separately for tanker and dry bulk.

Bharat Sheth: Separately for tanker and dry bulk on the dry bulk if you take also what we have on the charter about 38% of the dry bulk is covered and the rest is trading spot and on tankers the cover is about 55%.
This includes the charting activity in our wholly owned subsidiary in Sharjah.

Swati Pandey: Are you looking to change this ratio more towards spot or will this continue in this year?

Bharat Sheth: I think for the rest of the year it will be a function of the market at today's numbers that could be made available to us. We are reluctant to price out our ships you know by going and fixing anything more in for coverage because the rates are very low so we would rather take our chances on the spot market.

Swati Pandey: Okay so the ratio could move towards spot in the future depending upon the market.

Bharat Sheth: But nothing really is coming up. It will just change by 1% or 2% here and there because most or our assets are covered for the remainder of FY10.

Moderator: We have our next question from Saumaya from Morgan Stanley.

Mr. Parag: I just had a couple of questions. Firstly could you give us an idea of what is happening with some of the vessels that are coming out of their earlier charter? What are you looking at in terms of re-negotiated rates going forward?

Bharat Sheth: On the tanker side, we have approximately three ships which come between now and March 2010 of which two are in September and one is right at the very end of the year. I think the rates if you were to price today would definitely be lower than what we have got committed. On the dry bulk side we have got something open on in July of 2009. I think that broadly reflected today's market so I do not believe there will be too much of a change in re-pricing and then under the charter commitment we have two vessels that come up for re-pricing between May and July 2009 and there the re-pricing will be at substantially lower rate.

Mr. Parag: What kind of rates are you looking at going forward on the Capesize that came out of the earlier charter sometime in April?

Bharat Sheth: No that has already got re-fixed so that is committed until February 2010.

Mr. Parag: Okay also could you help us what is your NAV at the end of March.

Bharat Sheth: Approximately Rs. 355.

Mr. Parag: And do you see any further pressure on asset prices or do you think asset prices are more or less stabilized at where they are at this point in time.

Bharat Sheth: On the dry bulk side, we have not seen any drop in asset prices since December 2008. It has probably plateaud. They have not gone up either and on tankers we are seeing further drop in asset values. There are very few transactions because I think the credit system is still fairly choked.

Mr. Parag: And just on the macro outlook do you think the fall in the spot rate and the charter rates will impact you with the lag or do you think your Q4 numbers have turned out to be much worse in terms of revenue for as compared Q3. Do we now expect a Q1 and a Q2 of the following year to be equally bad given that rates have not really improved?

Bharat Sheth: It just depends. It is all a function of when you are pricing so on some of the assets there will be a time lag and therefore there will be a further reduction in the revenue.

Moderator: We have our next question from Amrit Mathur from Economic Times. .

Amrit Mathur: If I have understood it correctly in this March quarter you said you got overall 57% of your revenue derived from the spot market. Sir if I draw your attention to the December quarter you had roughly also similarly around 59% of your revenue on the spot market but what I have observed is this time around we have a little less tonnage so I am just trying to understand is this what is responsible for the sharp drop in your 24% drop in your core income. I am not talking about your sale of ships and all this. Core income is Rs 560 crs versus Rs 737 crs. I am just trying to understand because the spot market has been weak. Total tonnage has fallen. Total owned tonnage is down to 2.85 mn dwt versus 3.07mn dwt.

Bharat Sheth: As we said that it is to do with lower revenue days and partly it is to do with clearly lower earnings on the spot.

Amrit Mathur: Okay sir is this since you are saying you are going to continue focusing on spot. So unless we see some major revival this sluggish trend may continue may be 6 months or 12 months.

Bharat Sheth: We do not know how long it will continue. It depends on when trade flows will get normalized.

Moderator: We have our next question from Bhavin from B&K Securities.

Mr. Bhavin: First the clarification in the couple of line items. Sir the other income figure and the depreciation figure I think if you look at the average it has been higher in this quarter so this typically is only because of the re-pricing of the cash that we have in dollar terms?

Bharat Sheth: I will request CFO to answer that.

Shivakumar: Yes, a very substantial part of the other income for the quarter is from the re-valuation of the dollar balances.

Mr. Bhavin: Okay and if you look at the depreciation figure is also higher. Is that because of the change in the policy?

Shivakumar: That is right it is to do with the AS-11 change.

Mr. Bhavin: Coming back to the NAV number if I am right, sometime in December quarter NAV was in the region of over Rs 369. Number has gone down and assuming that the EBITDA would be the cash I think you should have an accretion of about Rs. 17 so is it because of the falling tanker price that this number has gone down.

Bharat Sheth: Yes predominantly.

Mr. Bhavin: Okay sir can you share with us the cash and the debt figure on the consolidating standalone.

Bharat Sheth: On consolidated basis, we had cash of about Rs2,300 odd crs and our consolidated debt is just over Rs 4,200 crs.

Mr. Bhavin: And the same numbers on your standalone?

Bharat Sheth: The bulk of the cash approx Rs2,000 odd crs is in Great Eastern. The debt for the shipping company is Rs 3,000 odd Crs and Rs 1,100 Crs is the debt in GIL and its subsidiaries.

Mr. Bhavin: We have already infused about Rs 1,100 crs in Greatship. Are we looking at further infusion there?

Bharat Sheth: Not at the moment.

Mr. Bhavin: Okay and is Greatship to be 100% subsidiary?

Bharat Sheth: Yes it is a 100% sub excluding the stock options

Mr. Bhavin: I was just looking at the revenue visibility that we have for the current year. We have about 66% of the products contracted. Would it be fair to assume the average that we have done for the current quarter that is about $21,000 would be the approximate range that we are looking at for this contracted year?

Bharat Sheth: Yes, give and take a couple of $1000.

Mr. Bhavin: Okay as far as the crude market is concerned if one were to bet on the crude or the dry bulk where do you think you know the odd looks more favorable?

Bharat Sheth: I think that is a tough one. As we see it they are both going to remain very soft in the next few quarters.

Mr. Bhavin: I mean what is likely to be the action from the OPEC in terms of production cuts going further? What is your sense on that side?

Bharat Sheth: From what we are reading and understanding and what we are actually seeing in the flow of movement from the Middle East and members of OPEC as well as some of the West African zones, OPEC is pretty much in compliance, it is a debate whether it is 80% or 90%. But we are seeing a huge drop off in the volume of oil that is physically moving. Earlier we used to get around 105 cargoes a month from Middle East and OPEC members. That average is now down to about 80 to 85. That is a very sharp drop and unfortunately the drop is more to the west and to the east and that is further impacting the ton mile demand. So the immediate outlook for the crude tanker market is very weak.

Mr. Bhavin: As far as the dry bulk is concerned if I look at the fleet we have just about one vessel in Capesize, one in Panamax and one in Handysize. We would have more than one vessel in any a particular size of category, is that not the strategy of the company as per as the dry bulk is concerned.

Bharat Sheth: We have placed an order for four kamsarmax which are just slightly larger than the Panamax so we have a new building commitment there. Therefore, assuming all the deliveries go through smoothly we will have about five ships in that category.

As far as the Capes are concerned when we acquired this we were in a strong market where asset values were pretty high so we want to grow when the asset values settle down. Either, we will exit this one Capesize or we will build on it.
Broadly our strategy is not to have just a singular asset in any category.

Mr. Bhavin: Sure and just one more clarification as far as the direct operating expenses they have also come off on a quarter-to-quarter basis. What could be the reason there?

Bharat Sheth: I think that is probably more to do with mixture of what is on time charter and what is on voyage.

Bharat Sheth: And of course also remember bunker prices have also come off.

Moderator: We have our next question from Mr. Jahangir from Pranav Securities

Mr. Jahangir: Out of a total consolidated debt of Rs 4,000 crs how much of it would be in the foreign currency as on March 2009.

Bharat Sheth: Approximately 90% plus is on foreign currency.

Mr. Jahangir: And when is it repayable?

Bharat Sheth: The average life must be about five years so end-to-end will be somewhere closer to seven to eight years.

Mr. Jahangir: Okay and in the next year how much would be the cover for repayment in FY10?

Bharat Sheth: In FY10 we have got about $100 mn for GE Shipping, which at current exchange rate is about Rs500 crs and in the Greatship it is appox Rs150 crs.

Moderator: We have our next from Mr. Sachin of Lucky Securities

Mr. Sachin: I just wanted to understand regarding this impairment, is it that in next year when you do the test and upgrading in terms of the earnings in the value would you be reversing this provision.

Bharat Sheth: We so far have never reversed. If you remember as the CFO said we had done an impairment in 2005 or 2006 and when we look at revaluing these assets we are just as much more cautious.

Mr. Sachin: Considering the sharp decline in the tanker markets in the last four to five months post the OPEC cut is it that even the tankers would be pretty close to that test and if the current scenario continues they could also have to take an impairment charge.

Bharat Sheth: We went through the tankers also. We went through every single asset that is in the water just now and currently if you take the tanker market because you know we apply a ten-year average then it is discounted, etc., into a present value. So if you take that the present value of the future cash flows as determined through these formulae is quite a lot higher than the current market value. So it is unlikely that there will be any further impairment over the next few quarters.

Mr. Sachin: Regarding the subsidiary, the top line has grown almost three times from Rs100 crs to Rs300 crs but if we see the segmental results, the profit has grown from Rs 50 crs to Rs75 crs just wanted to get some sense on that.

Bharat Sheth: Broadly speaking it is just the fact that we have done some in-chartering of the rig as well as the boat. We got about two boats which we have in-chartered so that tends to inflate the top line.

Mr. Sachin: As we go in FY 2010 what are some of the key positives probably that you see that could trigger the spot market rates?

Bharat Sheth: Well first let me clarify. The reason we are keeping ships on the spot is not because we expect to earn more. It is just that today the rates that are being quoted by potential charters are very low. So we are just saying that if you look at the risk reward ratio it does not make that much sense at these very low numbers to go and increase in any significant manner the forward coverage. As far as other positives are concerned very honestly we are still looking into a pretty dark tunnel. So unless the trade gets normalized which we do not see happening in our area and unless we see a lot more credit flow into the system I fear that we are going to go through a longish phase of very poor market.

Mr. Sachin: One question regarding dividend. There has been a substantial reduction on payout. We paid something like Rs.15 and if I get it right Rs.8 this year, your comments on that.

Bharat Sheth: The reason we reduced the payout ratio was that we believe because of committed new building program we need more equity to fund the expansion because banks are now reluctant to lend up to 70% to 80% of asset value as they have done in the past. And therefore we are putting ourselves in a position where we may have to put in as much as 50% or 55% of the asset value as equity contribution and only rely on the banks for 40% or 45%. So that is the reason why we believe it is the time where we need to build up on the cash.

Mr. Sachin: Are you looking at also re-negotiation from the contracts in the subsidiary in the sense you could look at altering some of the contracts and not going ahead with them or we are very positive on the offshore side.

Bharat Sheth: Well it is not that is easy to ever re-negotiate any of these contracts. We did approach some of the shipyards where we have orders even on the oil & gas front but we were not particularly successful. Many of these contracts are cast in stone and the last thing we want to do is to impair our reputation. So the one thing we will not do is just walk out.

Mr. Sachin: Regarding the demand-supply side in FY10 both in dry bulk and tanker how do you see that?

Bharat Sheth: What we do see is very strong supply coming both on the tanker as well on dry bulk depending on which report you read. It is going to be somewhere between 8% and 9% and on the demand side as far as absolute and ton-mile is concerned it is pretty significantly negative both for dry bulk as well as for tankers.

Mr. Sachin: When you mention supply that is net of scrapping?

Bharat Sheth: No net of scrapping.

Mr. Sachin: Okay net of scrapping. So how much would be on the gross level without the scrapping approximately?

Bharat Sheth: I think it just varies but I will suspect it will be 11% to 12%. For the tankers we have not seen so much scrapping taking place. It may not be as much as 11 %or 12% on tankers. It could be a little less at a gross number.

Mr. Sachin: But the point is that because more dry bulk and tankers supply could be in the range from 8% to 9% net of scrapping.

Bharat Sheth: Yeah I think that is almost to give and unless of course more contracts gets cancelled and there are some shipyards that are unable to simply build because the shipyards themselves are run into financial difficulties. So you probably got owners who are pretty relived at that.

Mr. Sachin: So when you say this 8 to 9%, you are accounting for this sort of things which could probably lead to a lower supply?

Bharat Sheth: No what we have done is we have seen what has happened in quarter one which is January to March and basically we have made an assumption that broadly what happen in quarter one should happen in the subsequent quarter and therefore it is difficult to give a number but it could be 8% it could be 10%. We do not know.

Mr. Sachin: And you are saying the ton-mile demand could be negative across both of them.

Bharat Sheth: Ton-mile demand unless we really see an improvement in global economies will not improve What we really need to see is a strong growth and I do not think we can see that at the moment.

Moderator: We have our next question from Aishwarya from CRISIL.

Ms. Aishwarya: I wanted to understand which are the key routes do your ships ply on?

Bharat Sheth: We do not have anything like the key route. We are a tramp shipping company and therefore in today's market we just take what we believe is the right cargo for the right ship.

Mr. Rahul: What is the profile of your time charter customers?

Bharat Sheth: Well at the time when we have done the time charters we have been fairly careful on the kind of customer profile. Most of these are either very large traders of commodities or they are very large publicly listed companies or in some cases on the oil side they are oil companies themselves. Now having said that unfortunately we are in a situation where the biggest and the bests want to re-price or re-negotiate during the contract validity the price. This unfortunately is happening now and it is happening to everybody not just us.

Mr. Rahul: Most of these would be Indian or I mean would there be a mix if you could share with us?

Bharat Sheth: We do not want to get into specific names because that is not fair. These are confidential contracts that we get into. So far we do not have an issue with any of the Indian counterparties I am happy to say. Most of the issues have been with foreign counterparties.

Mr. Rahul: What will be the typical duration for a time charter?

Bharat Sheth: There is nothing like a typical duration. Ship can be fixed for anywhere between one year up to five years and there is nothing typical about what people do. I think different people adopt different strategies on how they want to fix their ship. What we have very rarely ever done five-year deals of course we have got one as you all know on the rate but that is with ONGC. Normally we try and limit it to somewhere between one and three years because what happens is when you fix your ships out it restricts you from asset trading in that particular vessel and over the last five to seven years in this organization the management team also likes to look at opportunities to trade in the asset, i.e., to look at the possibility of selling something.

Mr. Rahul: What would be the benefit on account of FOREX that we would have seen in the top line?

Shivakumar: Probably 10% higher than the average for the period. The difference in exchange rate is about 10% between this year and last year.

Moderator: We have our next question from Hemant Patel from Enam Securities.

Hemant Patel: I wanted clarification on Rs 365 crs that you have in hedging reserve and this was largely because of derivative contracts for foreign currency bunkers and interest rates swaps. What I wanted to know was when are these likely to mature? Will it have its direct pass through on the P&L?

Bharat Sheth: The FX contracts run through FY12 and FY13 therefore it is over the next four years. What we have done basically we sold some forward dollars when the rupee was still in the lower 40s. What we have done in a way to hedge that position now is build up our cash balance so overall whatever we sold we got more dollars in our London account. As far as the interest derivatives are concerned there we follow a policy where somewhere between 50% and 60% of our interest rate liabilities we go into fixed and they probably have an average maturity of about 3.5 to 4 years. On bunkers it is only until June of 2009.

Hemant Patel: Would there be any kind of recognition of a loss if at all going ahead into FY10?

Bharat Sheth: What will happen is when the contract mature whatever the rate is or whatever the interest rate is or the currency rate is that will then eventually come into the P&L.

Hemant Patel: Okay so as far as interest in foreign currency is concerned it is obviously long run kind of a closure.

Bharat Sheth: The interest rate derivatives will pan itself out over the next six years.

Hemant Patel: Can we at all see kind of a recovery in 2009 because the situation seems quite grim in terms of demand and having said that the supply is still coming in. So are we likely to see a recovery if at all only in 2010. Is that what we should be taking from this or is that something else which we are missing out in terms of a recovery.

Bharat Sheth: I think that 2009 is almost going to be a wash out in terms of a recovery. There is a view globally that the world will see some positive growth in 2010 but there is also a view that the world will not see positive growth in 2010. So it depends on which view you are willing to take and quite honestly it is very difficult to know at this stage what is likely to happen in 2010. We did not see this in August of 2008 and we had the mother of all collapses from September onwards of 2008. We did not see 30 days before it happened. So to really try and make these calls is beyond us at the moment.

Hemant Patel: Okay and I am probably asking you a forward guidance of this but given that we are operating on a stand-alone basis at around 35% operating margin levels can we at these rates in the spot market and with our current spot versus covered exposure maintained this over the financial year 2010?

Bharat Sheth: Yes I suspect we should be, it will all depend on where the spot market really pans out because we have seen a Capesize vessel go from a $180,000 to $2,000 now it is back to $20,000. It just depends where this spot average pans out. It is really difficult call to make just now. This is an unprecedented level of volatility and I do not think in 60 odd years this company has seen collapse of this magnitude.

Hemant Patel: When is the jack up rig expected to join the fleet?

Bharat Sheth: The operating jack up is in place now. She went on hire on the 27th of March, 2009, and our own one sometime in early October.

Hemant Patel: It has been contracted already?

Bharat Sheth: Yes that has been contracted for five years.

Hemant Patel: Would you be able to share the rate?

Bharat Sheth: I think the rate is something we have not really sent to the stock exchange, etc., we may not be able to do that.

Moderator: We have our next question from Vivek Modi from Stewart.
Vivek Modi: The debt we have taken is fixed cost debt or a floating cost debt?

Bharat Sheth: About 60% of our debt is fixed cost and 40% is floating.

Vivek Modi: What percentage of our CAPEX is already paid?

Bharat Sheth: About 20% of our total CAPEX is already paid.

Vivek Modi: What I understand is that bunker expenses consist primarily of bunker cost.

Bharat Sheth: Yes and that is about 60% to 65% of the DOE is bunkers**.**

Vivek Modi: Okay so now more ships are on spot basis. How do you see this going forward? How do you see this pan out going forward?

Bharat Sheth: I think we are seeing oil prices go up a little and as a consequence bunker prices have also gone up to compare to what they were so my suspicion is that in the current cycle probably we saw bunkers at their lowest in sometime between January and March. That is when oil was also down to about $34 to $35. So I think bunker prices are unlikely to go down very significantly.

Vivek Modi: So that means the direct operating expenses will be higher due to higher bunker cost.

Bharat Sheth: I think there will be.

Moderator: We have our next question from Mr. Bhavin Chedha from Enam Holdings.

Bhavin Chedha: What was the reason for increase in depreciation in standalone results and is this increase likely to continue.

Bharat Sheth: What we said was that because of the change in the AS-11 treatment the Rs 500 odd crs which is there in our notes to the accounts we have added to the cost of the asset and as a consequence approximately Rs 22 Crs is a higher charge we have taken on depreciation.
This will depend on what the rupee dollar does. Now for example 31st March ended at little over Rs. 50 to the dollar and let us say that today the rupee is 49 or whatever it is 49.40 and therefore that will reduce the cost of the assets to the extent of your outstanding loan and then on a proportionate basis depending on the average life of your assets your depreciation charge will also reduce. So it just depends on the rupee-dollar movement.

Bhavin Chedha: The in-chartered tonnage of 64 days , was it all dry bulk.

Bharat Sheth: Yeah that was dry bulk in as far as Mumbai is concerned but we also had some in-chartered vessels in Sharjah subsidiary.

Bhavin Chedha: Okay but it is all dry bulk right?

Bharat Sheth: Yes in Mumbai it is all dry bulk.

Bhavin Chedha: Okay and this is only one vessel where the number of days are taken.

Bharat Sheth: That is correct and that vessel we re-deliver in June or July of 2009.

Bhavin Chedha: Okay and sir for the year 531 in-chartered tonnage what will be the breakup between tankers and dry bulk.

Bharat Sheth: It is all dry bulk.

Moderator: We have our next question from Manvi Agarwal from Quantum Advisory.

Mr. Janish: I have a little broader question on the industry as such. You mentioned the asset rates have come down quite substantially. If you can give a little idea on it and second is on the impairment which you have done you have mentioned that you have tested all your assets if we can also get a number as to if you put the current value on mark-to-market basis how would be the impact on the NAVs as of now.

Bharat Sheth: We have already given. That is already reflected in the NAV.

Mr. Janish: Yes, but you must have taken an impairment but if we take a market value today the number would be significantly different from what you have reported.

Bharat Sheth: No the NAV reflects the market values.

Mr. Janish: Okay so it is not based on the assets I mean the impairment test which you have done.

Bharat Sheth: No the impairment we have done is reflected in the P&L.

Mr. Janish: Okay and the second is on the asset value if you can give a little idea on it how the asset prices have changed, where they stand today and second one is on the bookings which we have done. Is there going to be any change in the rates at which you have booked I mean is there going to be any lowering of the rates for acquiring the future assets in that.

Bharat Sheth: Your first question was, were asset values have dropped and by what percentage. On the dry bulk side from the peaks they have dropped somewhere between 70% and 75% and on the tankers from the peak they have dropped about 50%. As far as the value of the assets is concerned we have just shared with one of the earlier participants that our net asset value is Rs. 355 a share and that basis taking the market value of the fleet as on 31st March, 2009.

Mr. Janish: Do you also see a drop in the prices in the offshore assets?

Bharat Sheth: The offshore assets have also dropped in value. They have dropped probably less as compared to what we have seen in tankers and dry bulk.

Mr. Janish: Could you give us an indicative number by what percentage this is right now.

Bharat Sheth: Probably about depending again somewhere between 20% and 30%.

Mr. Janish: Do you see that these asset prices also falling in line with the shipping assets going forward?

Bharat Sheth: There is a view that on the oil & gas the prices stabilize in the $60 or $70 region. Now if that happens then probably you will not see much of a further correction in the oil & gas values. I think it just depends on where eventually oil settles and how much of the E&P activities continue, how much is scaled back.

Mr. Janish: Are you looking for renegotiating on the contracts

Bharat Sheth: I think it is very difficult. These are fixed price contracts which we have with the shipyard and therefore it will be very-very difficult to re-negotiate any of these contracts.

Manvi Agarwal: Do we have any asset that is operating at breakeven or probably not even breakeven.

Bharat Sheth: Yes sure we do.

Manvi Agarwal: Could you tell us this in tanker or dry bulk can probably the extent or percentage of the loss on that.

Bharat Sheth: Well there is nothing like a percentage because these are ships, which we operate on the spot market. The vessels which we had fixed out on period none of them have been fixed out at levels which are below their breakeven but on the spot market , you have good days and bad days and there are times when you even earn less than your operating level. But so therefore you can never take one day or one week or ten days you have to take an average for a quarter or average for six months or average for the year.

Mr. Janish: When you take an impairment, you have taken ten-year cash flow, what kind of a rate you assume when you are doing this exercise?

Bharat Sheth: The way we do the impairment is for the first two years we take a number that is currently available in the market for that particular asset class. Then for the next five years we take the previous ten-year average rate and then for the balance life of the asset we take the ten-year average rate and discount it at 15% because of the greater uncertainty of cash flow and we then bring it down to a present value at the discounting rate of just under 9.5%. So that is how we have done the impairment.

Moderator: We have our next question from Abhijit Dey from Kotak Mutual Fund. Please go ahead sir.

Abhijit Dey: If I heard right the NAV figure which you mentioned is Rs. 355 per share. Is that right sir?

Bharat Sheth: Yes.

Abhijit Dey: One more question on the dry bulk side. Lately, I mean last two or three months you have seen some good activity on the Capesize market especially as Brazil Aluminum exporting high amounts of iron ore to China. Do you expect that trade to continue.

Bharat Sheth: The trade is bound to continue. Brazil is after all China's largest partner on iron ore but the problem is that even if you see this improvement first we got to remember that even at current levels they are almost 80% below what was the average this time last year so it is still at a very weak level. Therefore what I think is likely to happen is that over the next six to nine months the market will remain broadly where it is today say within 10% to 15% price stand.

Moderator: We have our next question from Ashwini from Bajaj Allianz Insurance.

Ms. Ashwini: I wanted to know the asset additions globally which were expected to happen in the last quarter. Were there significant amount of cancellations delays?

Bharat Sheth: Yes in the last quarter on the tanker side I would say about 90% of what was to happen had happened and on the dry bulk side probably about 50% of what was expected to happen has happened.

Ms. Ashwini: Okay so if you were to assume that these assets would be delivered in the remaining three quarters.

Bharat Sheth: No that was physically not possible because no shipyards globally have that kind of capacity. So I think what will eventually happen is that you know the percentages might change a little here and there but substantially what appears likely to happen is that somewhere between 80% and 90% of the tankers which are expected to happen will happen and somewhere between 50% to 60% of the dry bulk which is expected to happen will happen during the course of the 12 months.

Ms. Ashwini: Okay but sir now when the credit concerns have eased and in this financial situation.

Bharat Sheth: But let me promise you that they have not eased and whoever is telling you that is not telling you the truth.

Ms. Ashwini: Okay and secondly you had said that in the beginning of this year you had some large contracts for tankers due for renegotiation. How were these negotiations?

Bharat Sheth: That have gone through pretty successfully but obviously we are not at liberty to mention precise numbers.

Ms. Ashwini: Could you throw some light on your outlook on offshore market?

Bharat Sheth: I think the offshore market will be a function of what is likely to happen to E&P. Currently the E&P activities are being scaled down globally in certain regions by more than another region and therefore there is I would say a certain element of softness in that market but what we have seen in the last 30 days is again some kind of a market pick up in the level of activities. You know it may be just the fact that $35 crude oil has jumped to $55. So once oil stabilizes and I said this to one of the earlier participants that in our judgment if oil stabilizes at somewhere between $55 to $70 a barrel, you could see a greater stability in the oil & gas business.

Moderator: We have our next question from Mr. Nikhil Vora from IDFC SSKI.

Nikhil Vora: If one looks at the average TCY for Q4FY09 what is your sense of the rates for going forward at least in the first half or they are likely to be significantly lower or what is your thought on that.

Bharat Sheth: Yes they will be low.

Nikhil Vora: Will it be materially lower or it is difficult to predict that out right now.

Bharat Sheth: I suspect they will be materially lower in the spot market. But then remember this average is a combination of spot and period because the period rates will give its stability but the spots will be lower.

Nikhil Vora: I am slightly surprised that the NAV is still pretty much holding on from the last quarter number that you have talked about which was closer to Rs 370. Has not the asset price in market fallen more than 3% that the NAV suggest right now?

Bharat Sheth: Because then there are two things that have happened. One is clearly that dry bulk prices have stabilized. On tankers, there has been a correction but that is to some extent we made up by the profit for this year.

Nikhil Vora: Can you just roll us through Rs15 crs of item, which is basically paid for cancellation of some of the deliveries? What does it really mean in terms of the number of orders cancelled or ship, which has been delayed, or what does it really stand for?

Bharat Sheth: We had a couple of contracts with the shipyard in China and we cancelled those contracts and there was a penalty for cancellation of the contract. So we bore the penalty. Then what happened was that we ourselves has sold dry bulk vessel to somebody else and he could not deposit the money on time with us so we had to re-coup the deposit which was lying in our account. It was in the joint accounts and now that money will become ours. So this is reflecting the net impact of what we got from somebody else and what we paid out to somebody else.

Moderator: We have our next question from Mr. Sudeep from Business Standard.

Mr. Sudeep: Would GE Shipping be interested in taking control of Great Offshore?

Bharat Sheth: Something we have not looked at. It is not on our radar screen at the moment.

Mr. Sudeep: So at the moment you have nothing more to say.

Bharat Sheth: No nothing at all.

Moderator: We have our next question from Mr. Syed from Pinc Research.

Mr. Rajesh: What is your debt cost on an average basis. Has the LIBOR reduction lowered our debt cost overall and on the offshore asset front what would be the classification of assets that we have.

Bharat Sheth: The average cost of our debt is now running at about 5.5% and what is your next question?

Mr. Rajesh: In the press release it is mentioned that you owned five PSVs and five anchor handlers. I suppose it was possibly four anchor handlers that we have as of now.

Bharat Sheth: In water we have five because we took delivery last week of one of the anchor handlers.

Mr. Rajesh: Yes but is Akhila part of our fleet as of now?

Bharat Sheth: She is the one working in India.

Mr. Syed: We are seeing good rate negotiations happening for offshore support whether it is at least by ONGC, whereas the rig market is continuing to remain soft. So I just wanted your view on this as in how you are panning out.

Bharat Sheth: The rig market is currently undergoing a weak phase so as far as the boats is concerned I would say that also the rates are a little weak but it is all relative compared to what has been the rig market you must remember went through extraordinary strong phase and if you just take from the peak to today the correction in the rig market is probably higher than the drop in the earnings of the boat market on an average. I am not talking from one point to another point.

Mr. Syed: Essentially we are saying that PSVs and anchor handlers did not really take off in their earnings.

Bharat Sheth: You know I am not talking about one day because let me give you an example. If you just take a North Sea market where there is a lot of volatility we have seen rate go from £6,000 to £60,000 a day and back to 6,000 pounds. These are typical businesses done for a period ranging from five to ten days.
So in a sense it is not reflective of a long-term average and therefore it is always better to look at what has the market been over say 6 months or 12 months. Now if you take that kind of a duration then the fall in the boat market is less than the fall in the rig market in relative terms.

Mr. Syed: Comparing geographies I think India is more stronger in terms of day rates for the support vessels as compared to let us say Gulf of Mexico or North Sea.

Bharat Sheth: I would broadly say yes. This is because the Indian market is typically one of the weakest market because things move a little slow over here. Same thing when the markets fall in relative terms the Indian market remains healthier than the other international markets.

Moderator: We have our next question from Archana from DNA Money.

Ms. Archana: You said Greatship is reaching its full size and it is contributing significantly to the overall revenues. How much is the percentage contribution?

Bharat Sheth: No not for FY09 what we said was that for FY10 going forward the percentage of Greatship India and its subsidiaries will be much higher than for FY09.

Ms. Archana: By what percentage do you expect it to grow?

Bharat Sheth: It is difficult to say by what percentage because as you know we have eight to ten boats going to be delivered to us and how these boats get priced we do not know but it will be fairly significant relative to FY09.

Ms. Archana: Are there any plans for spinning it off as a separate company?

Bharat Sheth: Not at the moment.

Ms. Archana: There were talks that Greatship was looking to sell off their stake? What are the plans there?

Bharat Sheth: At the moment we are not looking at this. You know people keep knocking at out door and come up with various ideas so we hear them out.

Ms. Archana: You said you have sold some nine vessels in FY09. What are the plans for FY10. Are there any more vessels which we will be selling off?

Bharat Sheth: We have committed to sell two dry bulk vessels and two tankers and of which one tanker I think we delivered about a week or 10 days ago.

Ms. Archana: Okay.

Bharat Sheth: There is a dry bulk vessel which we will deliver on Monday in another three days time. Then there is a dry bulk vessel which we have contracted to deliver at the end of May and then there is another tanker also which we hope to be able to deliver sometime between May and July.

Ms. Archana: How has the sale of these assets changed your asset mix as compared to early last year.

Bharat Sheth: No it is broadly the same if, just look at in terms of our capital exposure just about 80% may be tankers and 20% will be dry bulk.
So it may change by a couple of percentage points but not in a meaningful manner.

Ms. Archana: But a number of your dry bulk vessels have moved out of.

Bharat Sheth: But they were vessels that were already depreciated in our book. All were at very low values. So when they go out they do not really change the capital means.

Moderator: We have our next question from Mr. Raj Gandhi from Principal AMC.

Raj Gandhi: There is a large difference in VLCC earnings as compared to Suezmax earnings. Do you expect this to stay for long quite.

Bharat Sheth: In a weak market yes. If the market gets stronger then the VLCC can improve very quickly because the whole thing gets multiplied on 2 million barrels. So in past we have seen VLCC earnings moving form $10,000 a day to a $100,000 a day.

Raj Gandhi: The previous quarter when you had given us an update you said that 20% of your operating days for 2010 are contracted.

Bharat Sheth: Yes correct.

Raj Gandhi: So has significant contracting happened in this quarter?

Bharat Sheth: We did some more contracting during the quarter and therefore our current spot days are likely to be around 52% to 54%..

Raj Gandhi: As you said in the product tankers you expect the average rates of the contract that you have done to be near Q4 rates. For crude tankers also the contracted rates will be near your Q4 averages.

Bharat Sheth: We have not done much on the crude side. Whatever contracting we have done has been on the product side. On the crude side we just done two ships and they have been on an average lower than the earlier pricing.

Raj Gandhi: You said you will be taking deliveries of $135 million vessels for 2011 but the fiscal stage payments might be different. Can we know year wise what will be cash outflow on your committed vessel purchases?
I guess if most of the deliveries is in 2012 then 2011 significant part of the payment will come in 2010 even though it is just $52 million of vessel deliveries in 2010.

Bharat Sheth: No, there will be some payments due in 2010 but I think the bulk of the payments will start in 2011.

Raj Gandhi: Okay for 2010 at least you are quite safe considering that you have Rs 600 crs of debt re-schedulement coming plus not much of cash outflow on the vessel purchase front.

Bharat Sheth: Yes not re-scheduling. We are making a repayment.

Raj Gandhi: So incrementally you will need to arrange for that much debt right?

Bharat Sheth: No I am repaying debt. I am reaping Rs 500 crs of debt. That is from my earning.

Moderator: We have our next question from Nirmal Raghavan from UBS.

Mr. Nirmal: Sir my first question is on the offshore part. The revenues have been good but what is the reason that the EBITDA margins or the EBIT margins look to be a little weaker. You mentioned some costs regarding the rig. Is that the reason or anything else?

Bharat Sheth: No I think typically what has happened when you in-charter a vessel, on in-charted tonnage your margins are always lower than on own tonnage because remember there is no capital. So really you know your top line and what you can charter out at is always at thin margin. So if you blend that with your owned assets then obviously the EBITDA margins will lower but if you take out what it chartered and if you just take ownership for ownership then there is an improvement in our EBITDA margins.

Mr. Nirmal: Okay and the second question is sir what kind of utilization risk do you see for all the assets that you add into your offshore subsidiary going forward. I mean the ones that you recently added are they all placed or are they are all earning and for the ones going forward also.

Bharat Sheth: From the ones that we have taken delivery of all except one is our earning and the reason that one ship which or the one boat we have taken we have only took her about four or five days ago so we are in the process of bidding in various contracts and we believe that by next week that too should get committed for some employment.
So, on the offshore side by next week we hope that all the assets will be fruitfully employed and then we have a number of assets due over the remaining ten months of the year. We are marketing what is coming to us now, we will also continue our endeavors to minimize any waiting period and try and get as many vessels committed for period ranging from one year to three years as we can.

Moderator: We have our next question from Mr. Gaurav Garg from Enam Securities.

Gaurav Garg: Just wanted to know what was the exact amount we paid for the penalty for the cancellation of the Chinese Shipyard order and what was the order size?

Bharat Sheth: See I think we mentioned it even in the previous quarter con call that we are not at liberty to give the precise number but it all reflected in the P&L in item under exceptional item because it has all blended but basically we reduced two vessels that had been earlier contracted in the low $40 mn level.

Moderator: We have our next question from Archana from DNA Money.

Ms. Archana: Earlier you had said that you would see a further reduction in revenues going forward because of lower revenue days and lower earnings on spot market.

Bharat Sheth: Yes correct.

Ms. Archana: How much will it be in percentage terms and is that for FY10 or for the next quarter?

Bharat Sheth: When you have assets in the spot market it becomes impossible to say by what percentage because the spot market is very volatile. So with that level of volatility it is impossible to know what the next spot picture will be. Now the point I am trying to make is the average earnings for this financial year, we think the spot ships trading in the spot market will be significantly below the average earnings as compared to last year. Now whether it is 30%, 40%, 50% I do not have an answer to that because of the volatility of the market.

Ms. Archana: True. Any further plans of cancellation of orders that you have faced.

Bharat Sheth: We are not at the moment talking to any shipyard.

Ms. Archana: Okay and you said that your Capesize is committed up till February 2010.Could we get the rates?

Bharat Sheth: No, rates become difficult because they are bound by confidentiality clause in our contract.
But obviously when we re-priced it, it was significantly below what we had earned in the previous contract.
But I can tell you it is higher than what she would have earned in the spot market.

Ms. Archana: Okay and one clarification, three of your tankers are coming up for renewal between now and March.

Bharat Sheth: One is coming at the end of February so there is one coming up in July of 2009 and one in February of 2010.

Moderator: We have our next question from Mr. Sachin from Lucky Securities.

Mr. Sachin: Yes sir if you could just provide a breakup of the offshore revenue between in-charter and owned-charter because as said there is substantial income from in-chartering.

Bharat Sheth: We would not be in a position to give a breakup because again we cannot provide the details on the rates that which we have in-chartered or out-chartered.

Mr. Sachin: And if you could just give an idea on the average TCY of the offshore division?

Bharat Sheth: Once Greatship India becomes full fledged and all their ships are in the water then we will start giving out this data.

Mr. Sachin: You are not going to share average TCY rates for the full year?

Bharat Sheth: Sorry.

Mr. Sachin: You mentioned regarding around nine vessels coming into the fleet in FY 2010 on the offshore side. If going by the current market scenario you believe there would be reasonable profit on them or you would just able to quote the marginal cost in terms of interest depreciation.

Bharat Sheth: No we believe that there should be profit on that.

Mr. Sachin: Okay and you mentioned the other rig which is coming ie the owned rig which is coming in September or October you have given out for a five years to ONGC if I got it that right.

Bharat Sheth: Yes the owned rig is due for delivery in September and by the time we bring that to India it may be October and that rig has been time chartered out to ONGC for five years.

Mr. Sachin: What is the difference in terms of the rates today for a new build & a second hand vessel?

Bharat Sheth: Today there has been virtually no contracting done at the shipyards and if you take the January and March data it is not very far from zero. Virtually nothing has been done because people are obviously concerned about the existing number of new building contract etc. But I suspect that the modern vessels in the water today are probably at the same price as where the new building would be.

Mr. Sachin: If some ship owner was today looking to buy the assets, would somebody be looking for a further correction in the asset prices or would you like to have further confidence in terms of overall deployment and the rate uptake if you were to take a decision today.

Bharat Sheth: I think if we were to take a decision we need a lot more visibility because I think I had mentioned to the earlier participants there is a theory that the worst is behind us and that things may improve in the world and there is another theory that things may not improve and we would therefore like to wait for you know some month before to see which way you know the road is headed.

Mr. Sachin: Okay and just one last question regarding dry bulk. I think we sold many assets in the current year. If you were to sell them today would we get a better money or we could have got much better rates in what the market is there today for the dry bulk.

Bharat Sheth: Today it would be worse.

Moderator: We have our next question from Mr. Siddarth Khemka from Centrum.

Siddarth Khemka: Are the re-negotiated rates during the year above our breakeven cost.

Bharat Sheth: Yes, they are broadly in some cases they are at breakeven and in some cases they are higher than breakeven.

Siddarth Khemka: Okay and are there any ships which are idle at this point or are you putting any ships on idle in the current future.

Bharat Sheth: When you have ship trading in the spot market, they have to wait because of dearth of cargo. So there is a little more waiting now than we have seen in the last many years but we have not laid up any ship the answer is no we have not laid up any ship.

Siddarth Khemka: Okay and any dry docking schedule.

Bharat Sheth: We have four dry docking schedules for this quarter.

Siddarth Khemka: Would all be in the dry bulk?

Bharat Sheth: No tankers as well as dry bulk.

Moderator: We have our next question from Mr. Sachin from Lucky Securities.

Mr. Sachin: During the March quarter how many of our ships which were on the spot had their average earnings below the breakeven?

Bharat Sheth: None.

Mr. Sachin: Okay and you mentioned regarding some of the foreign parties asking for re-negotiation so we had to re-negotiate trades at a lower level in some of those cases?

Bharat Sheth: No, we are still negotiating with those foreign parties. So we have not yet accepted any lower rates.

Mr. Sachin: What is the total number of dry dockings days for FY10 compared to FY09?

Bharat Sheth: About 190 days for FY10 as compared to about 700 days in FY09.

Moderator As there are no more questions I would now like to handover the call to Ms. Anjali Kumar. Ms. Anjali please go ahead.

Anjali Kumar: Ladies and gentlemen thank you very much for your participation today and as usual we will be uploading the transcript of this call in a couple of days on our website. However, please feel free to get in touch with us for any other clarifications you may wish for thank you very much.