Q4FY15 - Transcript

Moderator: Good evening ladies and gentlemen, thank you for standing by. Welcome to GE Shipping Earnings Call on declaration of its financial results for the quarter ended March 31st 2015. At this moment all participants are in 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 over the conference to Ms. Anjali Kumar, Head of Corporate Communications at the Great Eastern Shipping Company Limited to start the proceedings. Over to you, Ms. Kumar.

Ms. Anjali Kumar: I think we will straight go to the call with Mr. Shivakumar, our Group CFO.

Mr. Shivakumar: Hi everybody, good afternoon and welcome to the conference call for the results of full year FY 14-15. First I will start off with a little bit of commentary on what we have seen over the last few quarters and the normal data that we look at. So to start off with net asset value, on standalone basis is Rs. 324 per share, on a consolidated basis it is Rs. 518 per share. Year on year we are flat on a standalone basis and on a consolidated basis we are down from 550 to 518. This is largely because of a 20% drop in values in the offshore business. All of you have seen the drop in prices of oil and therefore that has had a huge impact on both utilizations and rates and correspondingly on the values of assets and therefore we have seen a 20% drop in values. On the dry bulk side, we have seen, on a year on year basis, a 40% drop in asset values including at the modern end and which has been compensated by about a 10% increase, somewhat compensated by a 10% increase in tanker values. With regards to what has been happening in freight markets in the last quarter or six months - the dry bulk freight market is terrible. The Chinese commodity trade has actually seen a negative growth in the first quarter of calendar 15, down by about 30-35 million tons over the previous year. So the rates have correspondingly been terrible. The spot market index for a capesize is currently at about $ 4,000 a day, similar numbers for a Panamax bulk carrier and therefore we have seen that impact on the asset values. With regard to tankers, we have had pretty strong market, the crude tankers have had a very strong quarter, probably the strongest year since 2008 and therefore has been earning quite well. Product tankers have improved as well. A lot of this is because of the drop in prices of crude oil. We have had a little bit of consumption growth and the market which is most sensitive to the prices, where there is least buffering with taxes, etc on the final consumption prices is the United States and there we have seen a big growth in demand in Q1 of this year. Year on year we have about an 800,000 barrels per day growth in consumption of petroleum products which is a really a big number which we have not seen in a long time.

In terms of storage demand there has not really been too much storage demand, for a brief period there was a contango and a significant contango in excess of a dollar a month on brent crude, that is no longer the case. We are down to about 65-70 cents a month and it does not make sense to buy and store at those numbers. So, on the supply side we have seen a glimmer of hope on the dry bulk side. Dry bulk fleet growth in the first four months of this year has been only about 4 million deadweight, which is about half a percent, but even more encouraging is that the entire growth of 4 million deadweight happened in the month of January. Between end of January and end of April we have had no growth in the dry bulk fleet. There has been a big pickup in scrapping, so in the first four months of this year we have had about 14.5 million dead weight of scrapping which has taken place. We are going at a run rate of about 4 million deadweight per month in the last three months which is one small encouraging sign. Of course if you have negative trade growth it is not going to help you much but it at least lays the foundation for a recovery at some point in future. Looking at – and some of you are interested in the dry docks, this quarter we had one dry dock on the shipping side, one dry dock on the offshore side, that was in Q4 FY15. In the current quarter, which is Q1 FY16, we will have one dry dock on the shipping side and we will have two dry docks on the offshore side. Coming to the offshore business, markets have been quite bad. Vessels which have come off contract have struggled on utilizations and you can see that in the revenue days number, we have dropped between Q3 and Q4 of the FY. So utilization levels are really poor and so we had three vessels coming off contract and they had quite a bit of downtime between contracts. In one case it was mobilizing from West Africa to India but otherwise there has been a little bit of an issue with regard to utilizations. We have also seen rates dropping, we have seen – and there is a lot of stress, we have seen floaters getting scrapped including in one case a late 90s built floater. We have not seen that happening in the jackup market yet but we hope that will happen sometime and take out some of the excess capacity.

So that is a broad overview of what we have seen in the markets over the last few months and we would welcome your questions and I will hand over the floor to the operator. Thank you.

Moderator: Ladies and gentlemen, if you have any questions please * and 1. We have a first question from Mr. Bhavin Gandhi from B&K Securities, please go ahead.

Mr. Shivakumar: Hello Bhavin, are you there?

Moderator: Hello Mr. Bhavin?

Mr. Shivakumar: Maybe we can move on to the next question and then maybe Bhavin can come back later.

Moderator: Certainly sir. We have the next question from Mr. Rohan Shah from Alpha Enterprises, please go ahead.

Mr. Shah: Hi sir, I noticed that you have some Capex committed which is about 96 million of payment in this year and a further 50 in the next year, so I just wanted to know whether it is still on track because that included dry bulk carriers. So is that likely to be honored or will you cancel that and also are the rates for that locked in or would that be subject to any rupee depreciation or appreciation?

Mr. Shivakumar: Couple of questions you had in that, so I will just answer them as I remember them. One is we fully intend to honor all the contracts that we have entered into, so that is the first one. The second one is you asked are the rates locked in, I do not know if you mean the employment contracts for those or the…

Mr. Shah: Sorry, I meant the forex rates.

Mr. Shivakumar: No, we have not locked the forex on those. It is only on a very small part that we need to lock in the forex because the debt will be funded in dollars at the time that we take the delivery.

Mr. Shah: Okay, so that is kind of offset with the debt.

Mr. Shivakumar: Yes and only the equity portion needs to be funded from us and we also have 250 million dollars of cash in US dollars.

Mr. Shah: Okay and what debt equity ratio would you likely finance that way?

Mr. Shivakumar: Typically we would do 60-70% debt on each of our acquisitions on the new building.

Mr. Shah: Okay and I was also just wondering in terms of dry bulk cargo, have you seen any changes in iron ore because I believe the iron ore prices have been recovering. So does that really impact you much?

Mr. Shivakumar: This recovery is a fairly recent phenomenon, so it will take time to filter through, we are not seeing it in Capesize rates yet and the Capesize are the big iron ore market. So we have not seen it yet in terms of freight rates. So we had some hope, if prices are starting to move up maybe people who have drawn down from stocks will start consuming more, but we have not seen it yet. The answer to your question is we have not seen it yet and we actually had a drop in iron ore imports, Chinese iron ore imports, between Q4 of 2014 and Q1 of this year.

Mr. Shah: Okay and the supply from Brazil is still likely to come on line in the next…

Mr. Shivakumar: Yes, we are hearing noises from Vale that they are going to cut back on production but you never know, it depends on what happens to demand after sometime, but the big problem in dry bulk actually is not iron ore, it is coal. Iron ore still has a little bit of growth, coal has been big negative growth, there is some action that the Chinese government is taking on pollution and they are also ramping up hydropower generation capacity and they are trying to reduce the dependence on coal fired power plants. So that is a big problem, we had a drop, a big drop in the first quarter of about 30 million tons and that is almost 40% drop in coal imports into China. So that is the big impact really.

Mr. Shah: Okay and in terms of oil and – the last time we spoke there was a dip in the rig count in the US and we were discussing how there might be a substitution for domestic oil in the US to import from Africa. So has that played out and do you see that still happening with the oil price recovering somewhat?

Mr. Shivakumar: Two things. One is the rig count in the last five months has dropped 50% or more than 50% actually, maybe 55%, it is the lowest levels since 2010. However that has not translated into a drop in production. Production still is heading close to the high of last 20-25 years at least.

Mr. Shah: And that has been stored onshore in the US and not offshore.

Mr. Shivakumar: That is correct. So there is enough onshore capacity for this oil. Consumption growth in the US also has been very strong, I mentioned earlier in the call.

Mr. Shah: Yes.

Mr. Shivakumar: So there is pretty strong consumption growth, driving has picked up, so gasoline demand which is very sensitive to price has picked up substantially. Though these are the winter months in driving, traditionally not a big driving season, gasoline demand has picked up substantially in the first quarter of this year. So we have not seen the drop in oil production in the years, maybe it will happen in some time but not yet.

Mr. Shah: So those ton miles are not really improving in that sense.

Mr. Shivakumar: Okay, I will give you one interesting set of fixtures that are happening now - Mexico is now exporting crude oil to South Korea and Japan. That is a trade which we have not seen for maybe 15 years and that is a long ton mile trade. So these kinds of things are happening and this is again probably a result of US shale oil production because it is not that Mexico is suddenly producing more oil, their oil production is going down all the time. So these trades are giving rise to a lot of ton. Crude tankers as I mentioned earlier are probably enjoying their best quarter since 2008.

Mr. Shah: What is your spot and time charter mix in light of this, are you trying to lock in these favorable rates in time charter or are you still leaving them open to any further appreciation?

Mr. Shivakumar: Okay, two-three things. So, I take it you are referring to crude tankers, right?

Mr. Shah: That is right.

Mr. Shivakumar: Yes, the time charter rates have moved up, so we will be open to locking in some but not at the rates that are being bid currently. So we are always looking out for de-risking some of our portfolio but we have not found the appropriate rates, we do not think the rates are yet at the appropriate levels.

Mr. Shah: Alright, thank you so much for your inputs.

Mr. Shivakumar: Thank you.

Moderator: Thank you for your question. We have the next question from Mr. Jinit Mehta from B&K Securities, please go ahead.

Mr. Bhavin: Good afternoon sir, this is Bhavin.

Mr. Shivakumar: Good afternoon Bhavin.

Mr. Bhavin: To start with, if you look at the operating cost in the offshore segment, every quarter that expense seems to be going up. In last quarter, you mentioned that there was some dry docking which was there but even from there we have gone up, so I believe there was some mobilization costs which were build in there. Anything else besides that which was there?

Mr. Shivakumar: Yes, that is right. So, it is mob costs, so we had three mobilizations during the quarter. Two are new assets that joined the fleet, so we took delivery of platform supply assets, Greatship Prachi and that was at the yard in China. So we mobbed that from China to West Coast of India, so that is one. The second one was the rig Greatdrill Chaaru of which we took delivery in UAE and mobilized her to again West Coast of India -a rig mob is pretty expensive. The third is one of our PSVs which finished a contract in West Africa and then we mobilized her, so we got a three-year contract in India and so we mobilized her from West Africa to again West Coast of India. Apart from that, yes little bit of cost increased as vessels coming off contract had a little bit of idling, so you have a little bit of cost there.

Mr. Bhavin: Also sir if I look at the revenue on a sequential basis, that has remained flattish and you had a rig downtime in the previous quarter which was supposed to have gone back into the contract. So has this 200 days of idling knocked off that or it is just the lower rates, why has it been flat?

Mr. Shivakumar: Yes, this is because of the idling really. So we have not really had lower rates, we have not had any re-pricing. So the one re-pricing we had was when we brought one PSV from West Africa to India but that is for a very small period here. So then the other impact of mobilizing is that you do not get revenue during that period, so that is 200 days of top line gone. So that is substantial amount of revenue which has gone, that is the main impact. So we have not had lower rates really because we have not had any significant re-pricing. There is just one which was working in WAF at a higher rate and came to India at a lower rate and therefore top line comes down but otherwise not really. Then of course the rig got re-priced and went into a lower contract than she was earlier.

Mr. Bhavin: Yes, but in the previous quarter it was…

Mr. Shivakumar: Yes, she had only one month revenue and now she has three months revenue.

Mr. Bhavin: Sure and if I were to look at your operating days for the rig segment, does it include the one month of Chaaru here or it does not include anything?

Mr. Shivakumar: No, this is revenue days, so it does not include the Chaaru…She only went on contract in April.

Mr. Bhavin: Okay, but we have booked depreciation on Chaaru.

Mr. Shivakumar: Yes, depreciation, interest, everything has got booked so that results in lower margins in that period and we expense the whole thing out in any case.

Mr. Bhavin: Sure sir and just on the charter rate going, I mean the environment going forward whatever is coming up for re-pricing in the next one year, do you expect 10-15% kind of lower rate environment for those assets going forward if you were to place them in the current environment?

Mr. Shivakumar: Yes, it depends on what your frame of reference is, a 10-15% versus last year…

Mr. Bhavin: Yes, last year FY 14, whatever existing contracts are there on those assets.

Mr. Shivakumar: Again, it depends on when you fix, so we still have contracts that we are running which we fixed in FY 12, so it will probably be a little bit more on those contracts but 10-15% is safe estimate of the drop that we could get on re-pricing on some of the assets and again the smaller assets, I think I have mentioned this in a couple of calls before, the smaller assets had already dropped substantially by 2013 like the 80-ton anchor handlers. I do not think there is much scope for them to go down from those levels, so their fall would be less because they have already suffered their fall a couple of years but certainly there will be downward pricing to some extent. There is also a utilization issue, so more than actually pricing the concern for most players is utilization and so we had a tender recently in ONGC for 20 vessels where I think a 100 plus has been bid.

Mr. Bhavin: Okay, so what was the thought when we were buying PSV in this kind of an environment, what was the thought really?

Mr. Shivakumar: We got a good deal, we were able to buy the vessels subject to landing a contract, a three-year contract and we write down a substantial portion of the vessel over the period of the contract.

Mr. Bhavin: You have mentioned about that 20% drop in the asset prices on the offshore side, but it seems to not have been captured, so is it the general pricing that you are talking about or are assets have been marked down by 20%?

Mr. Shivakumar: Our assets have been marked down by 20% which is in line with general…

Mr. Bhavin: It does not seem to have dropped so much…

Mr. Shivakumar: So they have contributed about Rs. 30 to the drop in net asset value

Mr. Bhavin: Right, but that would be around 450 crore which is around 7-8 million dollars but I believe your asset base on the offshore side would be about 1.1 billion or about a billion dollars.

Mr. Shivakumar: That is correct, but they also contributed – their PAT plus depreciation is large number, is 130-140 million. So you have to add that, so their net impact is opening NAV plus PAT plus depreciation. So their depreciation in fleet value is about 200 odd million dollars. However they clawed back quite a bit of it by their profitability, their running profitability, which has resulted in cash accretion plus depreciation, they have a depreciation of about 50 million.

Mr. Bhavin: Okay sure. Any loss that we have booked in the quarter on the asset sale, I am presuming that it will be predominantly on the dry bulk sale that we have done, so what was the thought there since we are adding five Kamsarmax, you are trying to consolidate, I mean bring down the exposure on the dry or what is the thought?

Mr. Shivakumar: This was the most vulnerable asset in our portfolio, which is a Capesize which is a 19-year old Capesize and just to give you a bit of perspective, I mentioned the scrapping picking up in dry bulk and most of the scrapping is happening on the Capesize side, so we are seeing Capesize is going – I think at least 40, maybe 45 and possibly close to 50 have already been scrapped in this year. Last week there was a report that a 25-year old Capesize got scrapped. That is the extent of the problem with regard to making money on these ships. So basically operating expenses are – you are not meeting even operating expenses even if you put it away on our time charter. So there is no sense in really holding and you need to – at some point in the near future you would need to do a dry docking survey and this is going to be expensive for a ship of this age. So it is across the Board that most people with 15-year plus assets are taking a long hard look at their ships.

Mr. Bhavin: Do our contracts of the new building have provisions for deferment or delays or the deliveries will be such that it will come on time?

Mr. Shivakumar: There are never provisions for delays or deferments in any ship building contract. So all you have to do is to go and talk if you want to, so people go and discuss. So we have not started any such thing yet, so the only way to do it is to go and discuss it because that is not a standard part of any ship building contract and no yard or owner would accept it.

Mr. Bhavin: On the crude side, you mentioned that the TCYs or the time charter rates are not at an appropriate level for you to lock in those rates, so you think spot markets could sustain at these levels going ahead as well or do you think there will be softness?

Mr. Shivakumar: Yes, we are not expecting much fleet growth this year either. I think we probably have another 1% fleet growth. Trades seem to be going up, the crude oil trade seems to be growing pretty decently, ton mile demand seems to be growing decently. We expect that we will at least see last year's strength through this year.

Mr. Bhavin: Sure and then I presume CY 16 will be heavy in the sense lot of VLCCs…

Mr. Shivakumar: A little bit yes, so we had two good years in terms of deliveries and fleet growth, at CY 16 we will start seeing some growth again.

Mr. Bhavin: Sure and just one final thing, sir your tax rates seem to have gone down this year, so any particular reason why the tax seems to have gone down?

Mr. Shivakumar: The tax we pay is on two items, we pay tax on the treasury income of course and the second thing is we pay tax on profit on sale. We booked a loss on the sale of a ship and therefore you will reduce your tax. We had less profit on sales.

Mr. Bhavin: Just one more thing, on the Capex fund we have about 90 odd million dollars of capex this year lined up or has that number changed?

Mr. Shivakumar: So when you say Capex it is the total gross value of the ships that will be added to our block during the year. It is not the cash that we have to pay during the year, it is the addition to our gross block during the year.

Mr. Bhavin: How much would we have paid out of this 90?

Mr. Shivakumar: We would have paid between 15 and 20 and we probably raised debt funding to the extent about 55 to 60. So basically equity of about 20-25 million needs to go, maybe 30 max.

Mr. Bhavin: Sure, unless we do more acquisitions this will be 60-70 million dollars is what we are looking at, at this point in time in terms of Capex or probably lower.

Mr. Shivakumar: Where did you get 60-70 from?

Mr. Bhavin: I am just knocking of…

Mr. Shivakumar: Yes, yes, okay, additional Capex including the debt amount.

Mr. Bhavin: Right.

Mr. Shivakumar: Yes.

Mr. Bhavin: So are we looking at dividend policy, I mean we have obviously increased dividend but anything on the radar because the buyback date has passed, so anything that is being thought?

Mr. Shivakumar: No, nothing so far. We had a reasonably profitable year better than we thought a year ago and we thought that we should enhance the dividend payout for that which we have done.

Mr. Bhavin: Sure, thank you so much sir.

Mr. Shivakumar: Thank you Bhavin.

Moderator: Thank you for your question. We have a next question from Mr. Krisharaj from Individual Investors, please go ahead.

Mr. Krishnaraj: Yes, thank you for taking my question. My first question was that given the buoyancy in the crude tanker market, is it leading to a lot of ordering and how does the product tanker market look like because there the order book is higher as a percentage of total fleet.

Mr. Shivakumar: So your first question was on whether there is an acceleration in ordering.

Mr. Krishnaraj: On crude tankers, yes.

Mr. Shivakumar: Yes, there is, not too much. The good thing about the tanker business is that there are not that many yards which build tankers, which is a big disadvantage on the dry bulk business. So there are not many yards where you would build a tanker. There are lots of yards that would like to but not that many which most good owners would go to under normal circumstances. These are the major yards, so you have the big Korean yards and some of the Japanese yards and the big Korean yards are also building container vessels which are taking up VLCC slots and therefore you do not have that much capacity in the first place to build too many crude carriers so while you have an acceleration, so for instance you had in 2014 first quarter, you had about 6 million dead weight of new crude tanker orders placed, now you have 8.5-9…hello are you there?

Moderator: Hello?

Mr. Shivakumar: Has he got disconnected, Mr. Krishnaraj?

Moderator: Hello Mr. Krishnaraj?

Mr. Shivakumar: Okay, he seems to have got disconnected.

Ms. Anjali Kumar: Can you check if everybody is on line?

Moderator: Yes ma'am, everybody is there on line.

Mr. Shivakumar: So you want to take the next caller then?

Moderator: Certainly, I believe he got disconnected. Can I take the next question?

Ms. Anjali Kumar: Yes, we will do that.

Moderator: Yes, we have a next question from Mr. Suman Bhat from Individual Investor.

Mr. Bhat: Hi, good afternoon everyone. I guess another good pretty performance I guess, so congrats for that.

Mr. Shivakumar: Thank you.

Mr. Bhat: Couple of questions. So what is the cash balance on hand at the end of the quarter?

Mr. Shivakumar: On a consolidated basis we have approximately 3,600 crores.

Mr. Bhat: And you said about 250 million of that is in US dollars, right?

Mr. Shivakumar: On a consolidated basis we have about 350 million in US dollars, this 250 was Great Eastern standalone.

Mr. Bhat: Okay. So, the other question I had was about the dry bulk vessels that are going to hit the water this year. I think we have two vessels which are coming in this calendar year, is that right?

Mr. Shivakumar: That is correct.

Mr. Bhat: So at the current rates what kind of – are we running below breakeven for those vessels?

Mr. Shivakumar: You mean book breakeven, yes at current rates they are below book breakeven. They are around operating expenses so you do not cover interest and depreciation at the current spot rates.

Mr. Bhat: Are you seeing many distress asset sales in the dry bulk segment?

Mr. Shivakumar: Yes, that did happen, so that is why you had a 40% drop in second hand prices, but it is sort of – I do not know if I am speaking too early on this but it seems to have found a floor in the last month or so, so it has stopped falling. So there is quite a bit of distress and there have been a couple of slightly high profile bankruptcies and a lot of owners are under stress, a lot of people are selling assets but people have also come into buy, so there are lot of people who have just come in and said these are bargains we are going to buy. So prices have dropped but they seem to have stopped falling currently.

Mr. Bhat: And on the new deliveries that are coming into the market, are you seeing banks hesitant to extend loans for those deliveries?

Mr. Shivakumar: They probably are but they are not hesitant to extend loans to us because…

Mr. Bhat: Yes, I am talking in general.

Mr. Shivakumar: But I think banks are probably hesitant to lend money towards bulk carriers now on a project basis because they know that the vessels cannot make the cash flows to service the debt.

Mr. Bhat: And the existing…

Mr. Shivakumar: Hello?

Mr. Bhat: The existing prices, are they below the levels we saw on 2012?

Mr. Shivakumar: Yes, in second hand values they are probably at the lowest levels in 20 years almost.

Mr. Bhat: Although they are much approaching the mid to late 80s sort of.

Mr. Shivakumar: Yes, at least the early 90s number.

Mr. Bhat: Okay, that is good, are we looking at more vessel acquisitions in that case?

Mr. Shivakumar: Let us see, there might be a little bit of a concern on this China story and China seems to be slowing down certainly and there is a little bit of a concern around that and we have seen steel production itself, for the first time I think there is a negative growth in steel production and consumption. So whether there is really a structural shift and then of course there is a coal into China where we have seen a big drop in coal import volumes. So there is quite a bit of concern on those things. Maybe as we get a little more information on those then the prices will look more attractive.

Mr. Bhat: Assuming that the scrapping continues to be strong the way we have seen in the last couple of months, what is the fleet growth that you expect for this year, this calendar year?

Mr. Shivakumar: Probably 1-2% at the outside, maybe lower we hope, but still not enough to make up for negative trade growth.

Mr. Bhat: What is the outstanding order book right now for dry bulk, the percentage of the fleet?

Mr. Shivakumar: Yes, it is about 18%, the gross fleet is 18%. You would expect a substantial portion of that not to deliver.

Mr. Bhat: In that case you have conversions to product tankers or…

Mr. Shivakumar: A lot of these yards, the weaker yards cannot build tankers, they just specialize dry bulk yards. So you might just have these cancelled because the owners cannot afford to take delivery and the yard just says that we are not going to build it.

Mr. Bhat: Okay and what are the corresponding numbers, the order book for crude and product tankers?

Mr. Shivakumar: The crude is about 15% and product tankers a similar number, slightly higher, 16-17%.

Mr. Bhat: The other question I had was on the other income number. I think it is quite a large number on a consolidated basis for this quarter, can you give us an idea of what that number consists of, 45.5 crores?

Mr. Shivakumar: I do not think there were any special – this was treasury income mainly, I do not think there were any special items which were there which are one big ticket item. So it is income from treasury investments.

Mr. Bhat: Okay, I think that is it from me, thank you.

Mr. Shivakumar: Okay, thank you.

Moderator: Thanks for your question. We have a next question from Mr. Pratik Poddar from ICICI Prudential, please go ahead.

Mr. Poddar: Hi, good afternoon sir.

Mr. Shivakumar: Hi Pratik, good afternoon.

Mr. Poddar: Could you help me with the total mobilization cost booked this quarter for one rig, one OSV and one PSV together I mean, cumulative number?

Mr. Shivakumar: Yes, it is about 3.5 million dollars. This is just the cost of mobilizing, yes, 3.5 million USD.

Mr. Poddar: This is the cash cost, right sir?

Mr. Shivakumar: That is correct, the cost of moving from point A to point B.

Mr. Poddar: And on the offshore side, you mentioned that rates have come down by 20%, the asset rates which you have adjusted in your NAV, this is primarily on the OSVs or…

Mr. Shivakumar: Everything, it is about the same across the Board.

Mr. Poddar: And do you foresee further Writedowns in this?

Mr. Shivakumar: Yes, it could happen. It depends on how long this continues. We have seen a smart bounce in oil prices recently which results in more – again it depends on your outlook for freight rates and utilization which again depends on what happens to oil prices. So you could have – we are not at the lows of even the last 15 years, so you could – in theory yes you could be lower than today, you cannot rule it out. If this continues for another year you could be low.

Mr. Poddar: And this would obviously be observed by the cash price depreciation, I mean as you mentioned earlier?

Mr. Shivakumar: Yes, that is right.

Mr. Poddar: In terms of your purchasing of assets what is our pecking order right now as well as selling?

Mr. Shivakumar: We do not have really and so we need to see signs of hope. We are not yet seeing signs of hope on offshore or in dry bulk which are the two areas where you had a big drop in asset values. So we are waiting to get some more confidence on those markets because utilization is still terrible, the vessels that we have on the spot market is having bad utilization, we still have one vessel operating in spot. So currently we do not have too much on our radar for purchase, nothing is looking specially attractive. So we will look on these on a case by case basis depending on where we can get some value. Again you could get suddenly one asset which is available at say a million, million and a half below where you think fair value is and we could look to do something there but broadly crude tankers look fully priced and offshore and dry bulk the issue is the outlook.

Mr. Poddar: Understood, so in terms of selling crude tankers in case the rates go up…

Mr. Shivakumar: Yes, the problem there is that we do not have that much capacity in crude tankers. Unfortunately the one asset class we have not invested in since 2007 is in crude tankers. The last crude tanker we actually bought and we bought some second-hands in 2007 and we have not invested since then in crude tankers. Therefore we are left with eight crude tankers currently. Obviously if somebody offers us a very attractive price we look to sell, but currently that is not the case.

Mr. Poddar: Any chances of adding jackup rigs in case prices fall further or you would not look at now adding more jackups and more OSVs.

Mr. Shivakumar: Yes, that is very unlikely adding jackup rigs unless we can tie something up with a nice long term contract. I had mentioned to Bhavin earlier that we managed to tie in a PSV with a…

Mr. Poddar: True, true.

Mr. Shivakumar: A jackup rig it would need to be even more long term, it would need to be a wider contract. If we can manage to do something like that and get a really cheap price maybe yes but extremely unlikely.

Mr. Poddar: So the Capex intensity going forward as we see will not be that high as what we have seen in the past, is that…

Mr. Shivakumar: Yes, in offshore I think we are – the kind of growth that we showed over the last five, six years, that is going to taper off a bit. As far as I can see you could have wonderful bargains coming up in the next six months but as it stands today I do not think we are likely to do any major capex in offshore. In shipping yes it depends on what you get, what quality and what kind of assets you get and if it is available at a reasonable price yes.

Mr. Poddar: So what was the average exchange rate this quarter for the dollar?

Mr. Shivakumar: It is just under 62.5.

Mr. Poddar: Okay, thank you so much sir for answering my question.

Mr. Shivakumar: Thank you Pratik.

Moderator: Thank you for your question. We have a next question from Mr. Himanshu from M3 Investments.

Mr. Himanshu: Hello, good evening sir.

Mr. Shivakumar: Yes, good evening Himanshu.

Mr. Himanshu: My question was on MR tanker, the first question. We are seeing the strong movement in the spot rates for MR tankers, there is no much movement on time charter rates, for last six, seven months the spot rates have moved very strongly. Can you help me, what is happening in the market. Again there were large deliveries which were to come this year, so what is happening in this market and why has the long term charter rates not started moving in line with the spot?

Mr. Shivakumar: Yes, you are absolutely correct and that is a good observation that you made and that is something that we also are wondering about. Basically people are looking at the order book– so charters are looking at the order book and they do not have the confidence that these markets will last. Spot markets have been pretty strong for the last three, four months and especially now in April which is traditionally not a strong month. April also has been strong, but still people have not got the confidence that it will last for a long time because everybody is looking at the order book and saying that we do not think it can last. So, that is the theory that we have that people are just expecting the product tanker market to fall and therefore are not willing to pay anywhere close to the current rates. You are absolutely right that the rates have not gone up much at all in the last year or so for the MR tankers. The LR rates have gone up, so those are substantially stronger than they were even four, five months back but not the MRs. That is the only possible explanation I see for it that people are not confident about the outlook for the rest of the year.

Mr. Himanshu: And again the asset prices have got stronger only in last one year.

Mr. Shivakumar: Not that much actually, no MR tankers are sort of flat. The bigger tankers have gone up in value including the LR1s but the MRs have been flat to marginally positive.

Mr. Himanshu: We had a very strong delivery in this year, something like 100 tankers in 2015 on MR side, are we going to see that much of addition means what is happening in that side?

Mr. Shivakumar: Most of the ships will get delivered because the markets are strong and people will take delivery and if the original contracting company does not take delivery somebody else will step in. So most of the ships will be delivered, so you will have the growth but last year also we had some 4% plus fleet growth and the market continues to be strong. So refining margins are extremely strong especially in Europe and that has resulted in people churning out a lot of product and then you have the new refineries coming up in the Middle East, in the Far East, so there is a lot of demand for product tankers which seems to be absorbing all the supply that is coming in.

Mr. Himanshu: And one question I had on the crude market, do we expect this trend to continue and have we been surprised by the strength in crude market because we have been not investing for many years, even at the bottom we were wanting to be conservative, so what really happened? Would it be right to assume that we were just surprised or we were not prepared at that point of time for this or how will we read this market and what is our view from here on now for next let us say two, three years?

Mr. Shivakumar: Yes, you are very right to assume that we were taken by surprise, we were indeed taken by surprise by the strength of the market and that is one of the reasons why we just did not invest at all. I think like a lot of players we just assumed that this US shale oil boom would result in the death of the crude tanker trade, the crude tanker market and that turned out to be a little too simplistic an assumption and the crude trade growth has been reasonably strong and coupled with very little fleet growth we have seen much stronger markets than we had originally expected. So, yes we were wrong in our assumption on the outlook and that is why we did not invest in that, but on the flip side the good news is that we kept most of our capacity in spot. So out of our eight crude tankers four Suezmaxes and two of our Aframaxes are operating in the spot market. So we have been able to cash in on the strong rates.

Mr. Himanshu: The other question was on the new building prices of crude, what we are seeing for VLCC hovering around 95 only for many, many months or let us say last one year. We are not seeing much price deprecation on the new building prices, so for older vessels the price depreciation has been much more. So, what could be the reason because if I see the MR tanker the bottom was let us say around 30 million dollars, would be now roughly around 36-37 but in crude or let us say VLCC we have not seen any sharp move in new building prices. What would be the reason and is it similar for Suez and Afra?

Mr. Shivakumar: Yes, the VLCCs actually did not drop much, so we never saw any Korean contracts going below 90 million. However we saw on the Suezmaxes and Aframaxes we saw let us say Korean contracts going down to the mid-50s which then bounced to the high 60s, so a 20% bounce from the low, which is similar to the numbers that you mentioned on the MR tanker. So, some of the VLCCs just did not drop to that extent, so the yards which were building VLCCs held on to the price even when the markets were weak.

Mr. Himanshu: Do we expect that strength in crude market to continue going ahead?

Mr. Shivakumar: Yes, at least for the foreseeable future, the next two-three quarters at least we expect the strength to continue because of where we see fleet growth, so hopefully that will play out.

Mr. Himanshu: Okay and in dry bulk side where we have seen the five year old assets nearly 40% lower than the new assets, it is just a theoretical question, will it not be a very – means for a person who has given a very small part of money let us say to a Chinese shipyard for a ship of Capesize or anything move to a five year old asset which is 40-50% lower, because generally you pay 10-15% advance. Would not we find people moving from first hand or even having given order for 10% and getting a 40% lower in a four-year old…

Mr. Shivakumar: Yes, you are assuming that if you forfeit your deposit or your installment that it is like a penalty for the cancellation of the contract but it is not. You still have to fulfill your contract unless you agree with the yard that it is going to be a penalty and they are going to close it. They can still claim from you the full value of the ship and you have to take delivery of the ship and if they have to book a further loss on the ship due to your walking out of the contract you are still liable for it. So you could possibly think of doing that if you are a single vessel company with no other ties to any large group, but those are not that many.

Mr. Himanshu: Okay, thank you for making me understand that. One more question was on the offshore side. We had large deliveries again on that side, again in AHTSVs we had some 50-60 deliveries and 120 were on order where 55-60 were on to the Chinese shipyard. Do we expect those 120 to get delivered in next two years because we have seen even large shipping companies like Transocean, now Seadrill all deferring their orders for one year, two years, three years, so how do we see, do we expect deliveries to come this year and again next year what would be your – and in those Chinese shipyards we had a lot of speculative – people had ordered ships for speculative purpose because the price was very low, again the initial deposits were low. So we expect such orders to get executed now or we think the cancellation in that market can be more than 40%?

Mr. Shivakumar: Yes, quite a few of those will get cancelled where there are weaker owners and/or weak yards, so quite a few of those will get cancelled, even if they are not cancelled if there are weak owners they will be delivered and they will just stand there because there is nobody likely to go and buy even if he has a financial capability because there is no business to be had. So these ships may be delivered, they may not be delivered but they will not necessarily come into competition because there is not that much business there and there is not too many buyers out there for these assets.

Mr. Himanshu: And again the charter rates for jackups - let us say what orders for one year. What has been happening let us say last four, five months? How lower let us say from last one year when such contract were there…

Mr. Shivakumar: Probably year on year they are down maybe 15-20%.

Mr. Himanshu: Both the asset prices and charter rates are down by 15-20%.

Mr. Shivakumar: That is correct, the problem is not so much in the charter rates because even at that 15% lower they are reasonably profitable but the problem is the utilization.

Mr. Himanshu: In the OSV side both AHTSVs and PSVs, large order book was there, so are we seeing their cancellations or we are seeing the orders getting delivered, what is the situation?

Mr. Shivakumar: One is AHTSVs - actually the order book was very low but the PSVs order book is pretty high and we are talking 10% plus delivering every year, but if in the shipping market you do not see too many announcements on cancellations, this is even less in the offshore market. It is quite opaque and the publicly available information is very, very limited, so you will not even come to know how much is being cancelled, etc and the number of yards building these are so many that there is no way to gather this information really except at the end of the year you will just be able to compare how many got delivered.

Mr. Himanshu: Okay sir, thank you from my side.

Mr. Shivakumar: Thank you Himanshu.

Moderator: Thank you for your question. We have a question from Mr. Krishnaraj from Individual Investors, please go ahead.

Mr. Krishnaraj: Hi, I am sorry I got knocked off when you were responding to my question. So my query was the current buoyancy in the crude tanker market leading to accelerated orders depressing the market fairly quickly and you had some interesting insights to share.

Mr. Shivakumar: Yes, that is right. So we have not seen a huge amount of ordering, so the difference between the ordering in Q1 last year and Q1 this year, calendar year I am talking about has been 2.5 million deadweight. So it is not a huge number really in ordering because there are not that many yards that can build these big crude carriers or that good owners would want to go to, to build these crude carriers and therefore ordering has not picked up to a huge extent. The other thing that I think I should mention, a lot of the yards also have a constraint on the pricing they can offer in order to attract owners in the sense that they cannot go very low because they are controlled by the banks because they are restructuring, most of them are restructuring because they have made losses and they have cash issues and therefore they are not able to necessarily price at where the market is demanding it, which then makes it unattractive for someone to order those ships.

Mr. Krishnaraj: Okay, so there are structural reasons for the crude tanker order book not increasing at least in the near term.

Mr. Shivakumar: That is correct.

Mr. Krishnaraj: On product tankers given that there is a lot of refining that is happening leading in increase to ton mile demand, how does that balance with the 17-18% order book, does it augur well despite the order book or not?

Mr. Shivakumar: Yes, it is always a bit of a concern to have a high order book, it is nicer to have a low order book and the fact is that the only thing that you can really see is the supply side, you cannot necessarily see the demand side, you can make some prognosis about it, etcetera but it is a concern that you have year after year of 4-5% growth in fleet. So that is little bit of a concern and it is going to at least cap rates, however having said that and we have had 4-5% fleet growth in the last year and we had Q1 this year being a very strong quarter. We have April just completed being a very strong month which is not normally a very strong period for very strong freight rates. So there is quite a lot of cargo going around and it is probably a function of a lot of refineries operating at full capacity in Europe and the new refineries coming up in the Middle East. So there is a lot of cargo out there and hopefully since it is out there it will be carried in product tankers and especially this is true for the larger tankers. One of the trends we have seen is that the larger product tankers have come into their own, so LR1s and LR2s which underperformed the MRs for three, four years are now substantially outperforming them in terms of rates.

Mr. Krishnaraj: Although we do not have LR2s in the fleet.

Mr. Shivakumar: We do not, but this is based on what is happening around markets.

Mr. Krishnaraj: My next question was the 36 crore loss that you have booked on the sale of fleet, is it only on Jag Arjun or it is between Jug Vidhi, because I remember Jag Arjun you had taken an impairment some years ago.

Mr. Shivakumar: No, no, not on the Arjun. So the loss is entirely on the Arjun and the Vidhi was a profitable sale. That was a gas carrier which we sold at pretty much close to the top of the market, of course it has gone higher after that but that is a separate matter. So we bought it in a sort of softish patch and we sold in a high part of the market, so this is net of the two, we made a profit on sale of the Vidhi and we make a large loss on the Arjun.

Mr. Krishnaraj: So this is over and above the impairment that you had taken a few years ago.

Mr. Shivakumar: We did not take an impairment on the Arjun.

Mr. Krishnaraj: Okay, sure. Yes, that answers this question. My third question was more on book keeping, see in the standalone business you have a total debt gross of 3,069 crores, of this 1,700 crores is in INR and the balance is in non-INR. So whenever you present this you probably translate the non-INR into INR and then add the INR bit and present it, but the INR was also swapped into an INR-USD contract which is currently at least FY 14 figures whether it was out of the money by about 870 crores. So now whenever you settle this debt the swap would also need to be settled leading to a cash outflow, is my understanding right?

Mr. Shivakumar: Yes, you are absolutely correct and our preference would be to account it in dollar terms. Unfortunately the accounting standard and practices as they are do not permit us to do that and we would very much like to reflect – it is not 870 by the way, it is substantially lower number but not 870, probably more like 500 to 600 on the currency alone, but still a big number. So, yes you are right, we are reflecting it at the original rupee amount and at the time of maturity yes it will get crystallized at whatever the exchange rate is at that time. So those two points that you made are absolutely correct. Unfortunately this is the way that the accounting treatment is done today, so where we would normally show it as a higher debt amount we are actually showing it as a lower equity amount by taking it into the hedging reserve.

Mr. Krishnaraj: Sure, but when you present the long term debt net of cash it does give an impression that cash is fully available and freely available.

Mr. Shivakumar: Yes, you are absolutely right, I can see the point you are making which is something we have debated internally as well. Unfortunately it would just be too confusing if we now start putting a different number on the debt, but you are absolutely right, there is another 550 crores of effective debt out there.

Mr. Krishnaraj: Okay, fair enough, so I have clarity on that. Now I believe that when the Ind AS or the IFRS accounting standards come then you can move the functional currency out of INR, I am just debating this because I have been sitting with this misunderstanding for quite some time and – because essentially your functional currency is the dollar and every time there is translation end of the quarter, there are some movements in profits that actually in some ways obfuscate the true and fair picture of the business but yes like you said it is probably due to the accounting regulations that are laid out here. So is there something…

Mr. Shivakumar: Okay, the first thing is that you have the option to voluntarily adopt it right now, the Ind AS/IFRS and in any case it is mandatory from next year. So the one thing that we have sort of decided is that we are not going to do it now, because we think it is not yet settled and it is not a very good idea to be a pioneer in some of these things because pioneers get killed normally. So we will wait for things to settle down and do it next year. As far as the functional currency is concerned we are still doing research into it. We are looking at all the conditions on what dictates the functional currency for your accounting and hopefully we will get some clarity on it in the next quarter or two and then we will move in that direction. I agree with you that there is a lot of this stuff which comes into our results but let us see if we can find reasonable solution to it.

Mr. Krishnaraj: Also some of the other questions that I had was there is a minor investment need in Seachange Maritime which actually increases every year and it is impaired every year. So it just leads me to wonder, that was one minor book keeping question and the other one was last year annual report said investment in gold bonds, I was kind of curious about these.

Mr. Shivakumar: So, first Seachange, there has been no additional investment for the last four years or so. So this is a dollar investment and so with the exchange rate that investment value just keeps going up. It has been impaired, that is basically worthless currently that it is in a business which is done very badly, it is in a container shipping company and that business is doing badly but now maybe a little worse. So those shares are – basically they get impaired because those shares are worthless today. So that is one on Seachange. Your second question was on the gold bonds, yes that is part of the treasury that we do, it is a very small part of our portfolio currently at some less than 2% of our overall treasury, so 1.5% of our overall treasury, some 35 crores, but we had also – and we buy gold ETFs, now gold funds – so somebody offered us a capital protected structure which was linked to the price of gold and we did that and then we exited that, it had a life of some 15 months or so and we exited that. So that was that, it was a small thing that we did in our treasury.

Mr. Krishanraj: My final question was that I think now the Capex cycle for the offshore business is largely over and you are generating about 1,300-1,500 crores of cash every year from operations and you already are sitting on about 3,700 odd crores of cash. So I am sure there will be a lot of pressure on deployment of this cash, so any lead thoughts on this?

Mr. Shivakumar: We do not generate that much cash from – yes, if you are looking at PAT plus depreciation yes we do generate.

Mr. Krishnaraj: Yes, consolidated numbers do show that…

Mr. Shivakumar: Yes, we do about 200 million dollars of PAT plus debt in a year. On the flip side we pay off about a 165-170 million dollars of debt every year and we pay a dividend every year which is for this year it is some 30 million dollars, maybe a little over 30 million. So we do not generate that much free cash flow actually though of course we pay it on debts , so we are actually creating free assets. We wish we were generating more free cash flow but then yes we would like to do more Capex and yes your conclusion that the big Capex of offshore is over is probably correct. So let us see what opportunities come up, currently we do not see anything which is very tempting, there is a lot of uncertainty around and it is not getting priced into the asset values. So nothing looking very attractive to buy currently.

Mr. Krishnaraj: Okay, sure. That is all I had, just to go back on the swap related question, see I was looking at the 2014 annual report where you had provided for 872.65 crores as the amount recognized in the hedging reserve. Now I presume that all of this is on account of – is actually in substance debt but you are saying the number is lower at 550, so is there some reconciliation that…

Mr. Shivakumar: So there are two things. There are some which are on interest rates swaps which we did on dollar loans as well where there is an MTM on those, where we did floating to fixed rate swap, so that is one, but let us stick with the NCDs that we did, so we swapped them from rupees to dollars, we swapped them from fixed rate rupees to floating rate dollars and then the transaction also included the floating to fixed. So there are two legs to the transaction. So if you had just gone fixed rate rupees to floating rate dollars you would only have the exchange rate impact. However you also effectively did a floating rate dollars to fixed rate dollars at an interest rate that is higher, a swap rate that is higher than today's swap curve. So you have an interest rate issue on that as well. So you have two legs in that, one is on the interest rates and one is on the exchange rates.

Mr. Krishnaraj: Okay, yes sure. I think those are the questions I had, anyway thank you for patiently answering them.

Mr. Shivakumar: Yes, thank you very much, you are keeping us on our toes.

Mr. Krishnaraj: Haha, I am just looking for good numbers.

Mr. Shivakumar: Yes, thank you.

Moderator: Thank you for your question. We have a next question from Mr. Jinit Mehta from B&K Securities.

Mr. Bhavin: Sir, Bhavin here, just a couple of more questions from my side. Firstly just wanted to clarify on that swap thing, the majority of that transaction is about nine years, so it is not any time soon that the transaction is maturing, right?

Mr. Shivakumar: It is not nine years from now.

Mr. Bhavin: Nine years from last year.

Mr. Shivakumar: So it starts in 2018, FY 18 and goes all the way up to FY 22 but with a strong central tendency, so FY 20 is the biggest year. So we have done it in different tranches, so 1,700 it happened in a lot of tranches, maybe 10-11 tranches and with different maturities. So we went all the way from seven, eight years to 12 years.

Mr. Bhavin: And the second question which I had was if you can help us with the re-pricing on the offshore side which would be coming in FY 16.

Mr. Shivakumar: We have about seven vessels coming up for pricing in the rest of this year.

Mr. Bhavin: Will you be able to share how many of these will be high end assets?

Mr. Shivakumar: Yes, so the high end assets, one of the MPSSVs comes up for pricing. I think both the MPSSVs will come up for pricing. Let me see, it is across the Board, yes. So it is starting from 80 tonners, all the way up to the MPSSVs, up to the M class vessels.

Mr. Bhavin: But the MPSSVs I thought always used to be short term contract.

Mr. Shivakumar: Yes, that is what, so those two vessels will come up, I think we got extended, so it is I think one comes off by end of 2015 and the other one probably continues to 2016.

Mr. Bhavin: Sir, how have rates behaved on the MPSSV side?

Mr. Shivakumar: Okay rates on large PSVs, these are essentially large PSVs, that is the market which is really – which is where there is a market benchmark available. So large PSVs are doing incredibly badly in the North Sea, utilizations are very poor, rates have gone down to maybe 5,000 pounds, maybe lower, the mid-size PSVs went down to I think 2,000 pounds and utilizations are probably 50-60%. So in the North Sea they are doing incredibly badly. So we are glad we have contracts on these.

Mr. Bhavin: Alright sir, thank you, that is it from me.

Mr. Shivakumar: Thanks Bhavin.

Moderator: Thank you for your question, for any further question participants are requested to please press * and 1. Ladies and gentlemen, if you have any question please press * and 1. We have a question from Mr. Ashish Jain from Morgan Stanley, please go ahead.

Mr. Jain: Good evening sir. I joined the call late, can you just repeat the NAV values?

Mr. Shivakumar: Yes, the NAV standalone is 324 and consolidated is 518 and so there is a Rs. 32-33 hit which we have taken from a 20% drop in offshore asset values between March and March, between March-14 and March-15.

Mr. Jain: Okay, got it sir. That is it from my side sir, thank you so much.

Mr. Shivakumar: Thanks Ashish.

Moderator: Thank you for your question. Participants if you have any questions please press * and 1. Ladies and gentlemen, if you have any questions please press * and 1.

Mr. Shivakumar: I think we can close the call now, there doesn't seem to be any other question.

Moderator: Yes sir, we do not have any question.

Mr. Shivakumar: Thank you very much everybody and as always the transcript will be up in a few days, it will be up on our website and we welcome further queries from you to our Investor Relations team. Thank you.

Moderator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participation and for using Tata Docomo Conferencing Services. Please disconnect your lines now, thank you.