**The Great Eastern Shipping Company Limited.**
**Q3'FY10 Investors/Earnings Conference Call**
**(January 29, 2010)**

**Moderator:** Welcome to the GE Shipping earnings call on declaration of its unaudited financial results (provisional) for the 3rd Quarter ended December 31st 2009. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1. I would now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communication at GE Shipping to start the proceedings. Over to you Ms. Kumar.

**Anjali Kumar:** I once again welcome you to this conference call for the Q3 results. Today we have with us our Deputy Chairman and Managing Director, Mr. Bharath Sheth, our CFO Mr. Shivakumar, and our whole team of GE Shipping to answer any queries that you may have. Mr. Shivakumar, I would like to hand over the call to you now.

**G. Shivakumar:** Good evening ladies and gentlemen and thank you for joining us on this conference call. I will run through the results first. We have ended this quarter as Q3 of financial year 2009-2010 with probably our worst PAT for about six years or so. The last time we saw a number as low as this was in September 2003 and that reflects the conditions of the markets and we have seen a huge drop in rates from the corresponding quarter. Though the bulk carrier market had already been hit by September-October last year and we had some effect of that in the results for December 2008. The tanker markets were still very strong in Q3 of financial year 2008-2009 and those markets have now turned quite weak during the summer and the early winter of 2009-2010 and that's reflected in our results. The biggest impact was from the crude carriers where the rates dropped by almost 70% on the spot market between 2008 end and 2009 end and the product tankers rates had dropped equally as well. However, we were insulated from bad impact by the fact that we had a larger proportion of our product tanker fleet on time charter. The dry bulk earnings were slightly lower than they were in the corresponding quarter.

Going through the consolidated results, the offshore oil field services business was quite weak in the last quarter as compared to the last quarter of 2008 and that reflected in our earnings in the offshore business. It's also probably a result of the lower activity levels that we saw in the second half of last year. Coming down to the expenses, the employee cost were marginally up despite a substantial increase in the number of units, especially from the offshore oil fields services business. The repairs and maintenance expenses dropped because we had lower dry dockings in the shipping business. The spot fleet for Q3 of FY09 was approximately 59% and with a change in the market, the spot fleet in Q3 FY10 was down to 43%. I am talking about the Great Eastern shipping fleet and therefore the direct operating expenses also dropped correspondingly.

In the direct operating expenses of the subsidiary one of the items that we have expensed out is the mobilization cost related to the rig that came into operation in October. She was mobilized from the yard at Singapore into the location offshore India and that has been expensed out fully in the last quarter. Among the other item on the expenditure side, the loss or gain on foreign currency transaction which had a very large impact in the first quarter of this year, has also had an impact now because of the strengthening of the Rupee versus the Dollar and this has had an impact of approximately Rs. 40 crs on our results. The other items which I would like to point out in the other expenses that we had to take an MTM loss on one of our interest rate swaps in one of the Singapore offshore subsidiaries into the P&L account which resulted in the P&L hit of approximately Rs. 18 crs in this quarter and that's included in the item-Other Expenses.

The contribution from the subsidiaries towards the consolidated results is substantially down from the previous year. Both the subsidiaries, the main operating subsidiaries, one of which is a chartering subsidiary based in Sharjah and the other is the oil field services subsidiary which is based in India and in Singapore. The chartering subsidiary was affected by the shipping markets and therefore the earnings were lower. The offshore oil field services subsidiary was affected on account of one, the mobilization cost of the rig which has been completely expensed out and two, on account of the MTM which we took into the P&L account. The good news is that the balance sheet continues to be strong. We have substantial liquidity of about $ 700 mn equivalent. The NAV of the stock remains at approximately Rs. 303 per share. The debt equity ratio has been given in the press release on a gross basis, is at 0.65 stand alone and 0.94 consolidated and the net debt equity is at 0.05 stand alone and 0.30 consolidated.

**Moderator:** Ladies and gentlemen, we will now begin the live of question and answer session. We have a first question from Amrit Matur from Economic Times.

**Amrit Matur:** You mentioned this time that 43% of your fleet was on spot as compared to 58% last year. But the freight rates have picked up considerably in the tanker segment over the last 2-4 weeks. Will you then be able to lock your vessels at those higher rates in the current quarter?

**G. Shivakumar:** We have not fixed any vessels/tankers out recently. The vessels which have been fixed out were fixed out over the last few months. If you see the similar ratio, or the spot ratio of our last quarter that's Q2 FY10, was about 48%. So we still have a large number of our tankers operating on the spot market and if you concern is whether we will be able to take advantage any higher rates that we get on the spot market, yes we do have a substantial number of vessels on the spot market.

**Amrit Matur:** So those gains will be reflected in the March quarter?

**G. Shivakumar:** Yes we would expect those to be reflected in March quarter. The second question that you had was on the offshore business. Yes, the price of oil has gone up between end of 2008 and end of 2009. There is a bit of a lag impact in E&P activity between the time that the oil price goes up and people get the confidence to start investing again in exploration and petroleum. We expect that it will take a few months before that feeds through into more activity, more drilling and therefore more requirement for oil.

**Amrit Matur:** A broad macro question, are the rig day rates stable in the offshore business?

**G. Shivakumar:** The rigs rates are probably lower than when we fixed them. We fixed out our rigs about a little over a year ago in November 2008 and currently the rates are lower than our fixed rates.

**Amrit Matur:** Going forward how are you seeing the tanker market. Everybody is talking about a recovery in the global economy. .

**G. Shivakumar:** I think the general feeling on tankers is that compared to the previous 12 months, the next 12 months should see some improvement. How much, it is will depend on simply too many variables.

**Amrit Matur:** But is there some sign of improvement? It's almost a year the industry has been in doldrums?

**Bharat Sheth:** If you take the average earnings that have come out over the previous 12 months, almost across every asset class they continue to remain profitable. The reason that is so is because there were factors that worked in the favor of ship owners in spite of a significant reduction in the demand for oil and consequently tons miles. For example, we had almost 4% of the tanker fleet on storage because of the Contango. And also we had shipyards unable to deliver on time. We also had certain cancellations. So the full impact of the supply never came through in the previous 12 months. Had there been no storage or had the supply come in as was expected at the start of the previous 12 months, I think this market would have been much worse than it eventually passed out. All in all if you take historical standards this is not a bad market, it has not been a great market but it's not a particularly bad market.

**Moderator:** We have a next question from Mr. Sharma from Citigroup.

**Sharma:** Can you throw some light on the market value of the fleet currently?

**Bharat Sheth:** It just under a billion dollars.

**Sharma:** That's the market value for the fleet?

**Bharat Sheth:** Yes, the shipping fleet. It is just over $ 925 mn.

**Moderator:** We have a next question from Ms. Swati Pandey from Reuters.

**Swati Pandey:** Would you be looking at any fleet expansion now?

**Bharat Sheth:** We have just acquired second hand product tanker and yes we will look at opportunities both in tankers, dry bulk as well as in offshore. But it will be very selectively. So I do not expect anything very aggressive from us over the next 6-12 months.

**Swati Pandey:** Okay and these would be in second market or new build?

**Bharat Sheth:** Second hand in all probability.

**Swati Pandey:** Could you give an outlook on the freight rates in dry bulk and tanker segments?

**Bharat Sheth:** As far as tankers are concerned there are obviously many variables that will drive and which could be positive for the market and there are an equal number of variables that are going to be negative for the market. So eventually the markets will be determined by how many of these factors play through. Having said that, it is our belief that over the next 12 months we should see average earnings that were better than the previous 12 months on tanker. As far as dry bulk is concerned, we believe that the average earnings over the next 12 months will broadly reflect what we have seen over the previous 12 months.

**Swati Pandey:** Would you keep your spot to contract ratio for your fleet the same in Jan-March quarter or are you looking to put more vessels on spot?

**Bharat Sheth:** No I think we have always operated within a band and we will continue to operate within that band and then of course, within that band it just varies depending on factors like who the counter parties is, are we getting decent rates etc. We are not going to go and fix ships simply to secure cash flow because we have got enough cash to ride a bad market. So we will probably continue to take the same level of volatility that we have got at the moment.

**Swati Pandey:** How much cash do you have in your books?

**Bharat Sheth:** In GE Shipping, it is just above Rs 3200 crs.

**Moderator:** We have a next question from Hiral from KJMC.

**Hiral Kotak:** Could you give us an outlook on the offshore market? We also have contracted to sell our PSV and a platform supply ROV vessel. Are we downsizing our orderbook on that front?

**Bharat Sheth:** The consensus view globally is that so long as oil prices remain in the $ 70-80 range or obviously higher, we will see an improvement in the E&P activities worldwide. Probably towards the later part of 2010 or may even earlier 2011, so there is a little more optimism, little more activity, little more interest being shown by many of the market participants. As far as selling two of the boats were concerned, the idea was to slightly downsize our capital commitments, going into the future. We also managed to secure what we believe were good rates. So it was a combination of these two factors. In other words we would not just sell with a view to downsize at any price.

**Hiral Kotak:** How many of your tankers would be on the spot currently?

**Bharat Sheth:** It just depends on the various segments. If you take crude, on the Suezmax we have got about six vessels on the spot market which is almost the entire fleet. On the Aframax, we have two vessels in the spot market out of five and on the product tanker fleet we have two of the long range product tanker out of four on the spot market and four of the MRs on the spot market.

**Hiral Kotak:** So now would you like to lock-in the tankers, as the rates have improved?

**Bharat Sheth:** Unless we see an improvement in the longer term rate, i.e., 12 or 24 or 36 months, we would prefer not to lock it and just play the volatility of the spot market.

**Hiral Kotak:** How is the global order book in terms of new building delivery on the dry bulk and tanker market?

**Bharat Sheth:** It is clearly high but we are not seeing many cancellations. We are seeing many more vessels slipping from their contracted date and as a consequence of the slippages we think that the net fleet growth on tankers could be lower than what we saw in 2009 and on dry bulk it could probably be the same.

**Hiral Kotak:** Can we put a number to this?

**Bharat Sheth:** It depends eventually on the amount of scraping that takes place because on the tanker side we are in the year of a crucial phase out and if most of the single hull tankers that are due to get scraped gets scraped, we believe that the tanker fleet on the net basis will grow somewhere between 4.5-5.5% and on the dry bulk side, fleet will probably grow somewhere between 8-8.5%.

**Moderator:** We have a next question from Mr. Bhavin Ghandhi from B&K Securities.

**Bhavin:** Can you provide the spot contract mix in terms offshore or OVS space?

**Bharat Sheth:** Five out of the 14 boats that we have are on the spot market and the two rigs are of long term charter.

**Bhavin:** How many are coming up for renewals in the next one year?

**Bharat Sheth:** About three.

**Bhavin:** In terms of the rig rates, what would be a rate which will ensure that if you had an order placed recently you will be able to meet your debt servicing commitments?

**Bharat Sheth:** Very little has been contracted so one does not really know where the current contract prices on the rigs are. But we are hearing numbers that today maybe you should be able to contract at bout $90,000 a day to service your debt on the asset costing at $180 to $200 mn.

**Bhavin:** What are the current day rates for jack up rigs?

**Bharat Sheth:** There are some jackups which do not have a contract but the ones we have just seen recently, the high end and the modern jack up have been fixed between $ 100,000 and $ 110,000 a day.

**Bhavin:** What is the NAV as on Dec'09?

**Bharat Sheth:** It is Rs 303 per share.

**Moderator:** We have a next question from Mr. Vikaram from Karvy Stock Broking.

**Vikaram S.:** How many vessels were in dry docking in this quarter?

**Bharat Sheth:** There were 2 vessels.

**Vikaram S.:** Can we get the debt on balance sheet for shipping and offshore businesses as on 31Dec'09?

**Bharat Sheth:** The debt for Great eastern was just under Rs 3500 crs and for Greatship it was just over Rs 2000 crs.

**Vikaram S.:** Any update in our investment in Greatship?

**Bharat Sheth:** No, it's same , Rs1100 crs.

**Vikaram S.:** We are seeing a decline in asset prices, so is it feasible going forward because again we are selling some vessels and buying again in the same market, so is there still arbitrage happening in age of vessel and how are we looking to play this?

**Bharat Sheth:** What we have done is we have sold two, one is a modern PSV and one is new building contract or I mean effectively what we sold as a new building vessel. On the offshore side we have not bought anything recently, what we have bought is in the shipping business where we bought our product tanker so they are completely different markets.

**Vikaram S.:** **I**s there any possibility to re-negotiate the contact rates which are already in order?

**Bharat Sheth:** No.

**Moderator:** We have a next question from Mr. Kunal from K R Choksi.

**Kunal Lakhan:** What kind of margins do you enjoy in your owned tonnage and in inchartered tonnage?

**Bharat Sheth:** I think they are not comparable because when you charter in tonnage everything hinges at what price you have chartered in. If you started in expensive then you have got negative margins. If you have bought a ship that is expensive then again you get a negative margin depending on where the markets are. But all that happens is when you are operating a ship the total capital that you commit for the same number of revenue days is confined to your working capital, whereas when you own a ship you are obviously gradually creating equity in the ship itself through your debt service.
The reason we did not take in ships in the quarter was because we saw that by taking in a ship, since the forward curve was in contango to the spot market, had we taken in any tonnage and you start operating that ship in the spot market you would have started bleeding. So because of the substantial contango we did not take in anything immediately, but we keep looking at those opportunities.

**Kunal Lakhan:** What is the difference between a new built vessel right now and say a second hand 5 year old vessel? What kind of price difference is there?

**Bharat Sheth:** Again it depends on the sector, but I would say that today for example, the ratio will be something between 1 and 1.2.

**Kunal Lakhan:** I wanted to understand the difference between the second hand built and a new built?

**Bharat Sheth:** Let me give you an example, a VLCC. We have just seen a resale got done at about $ 96-97 mn. So if you took a ship that was five years old means 2005 you would probably have to pay somewhere in the low to mid 80s. Now if you were to contract a VLCC today for delivery 2011, it will come to you at about $100mn. So the ratio is about 1.2.

**Kunal Lakhan:** Roughly about 20% discount.

**Bharat Sheth:** In the strong markets if you recollect the prices of second hand tonnage was much higher than new building because in those days you could immediately start earning vast sums of money.

**Kunal Lakhan:** Actually the reason why I asked was because in your press release you have mentioned that you have committed a CAPEX of about $ 437 mn. I wanted to understand will this be spent towards acquiring second hand vessels?

**Bharat Sheth:** No this is already committed under New Building Contract.

**Kunal Lakhan:** When will you expect fleet to come in, two tankers and five bulk carriers?

**Bharat Sheth:** Between end 2010 and 2012. I am talking about the calendar year, so nothing in FY10 and then something in FY11 and something more in FY12.

**Moderator:** We have a next question from Mikky from East Wind.

**Mikky:** What is the CAPEX span over next three years and the next is, how do you foresee the next quarter, say first half of current year 2010? Do we expect the recovery in the first half or it would take sometime?

**Bharat Sheth:** The total outstanding CAPEX for shipping is $ 437 mn of which the phase in will be - $136 mn will come in FY11 and $301 mn will come in FY12. And as to your next question we believe that the January-March earnings on the tankers will be much stronger than December ending quarter.

**Moderator:** We have a next question from Mr. Rajesh Ravi from Pinc Research.

**Rajesh Ravi:** Why have we seen the performance in the offshore segment deteriorating, like the EBIT margins falling to almost 10%?

**Bharat Sheth:** The numbers that you see are also a reflection of we position the rigs. That expense of positioning was all charged to the revenue accounts. You will see a lot better contribution going forward from the rigs. The second is, you had extremely weak markets in October-December period for the offshore vessels. Not only were the utilization rates very poor but also the earnings on the few days that the boats actually did get the business were also very weak. You also had a lot more supply coming into the market both for anchor handlers as well as platform supply vessels, so all in all the spot market was extremely weak. What I mentioned to one of the earlier participants that what we are now seeing from various markets generated reports that there is optimism coming back into the segment and people are a little more enthused about the sector towards the latter half of this year. We have done a mark to market on an interest swap of about Rs. 18-19 crs in Quarter 3 that will probably not repeat itself. So coming quarters will show improvement in eanings.

**Rajesh Ravi:** So going forward we would be seeing better margins?

**Bharat Sheth:** On a reported basis you should see better numbers.

**Rajesh Ravi:** We would be seeing EBIT margins moving up from around 30% plus because jackup rig should be contributing good numbers?

**Bharat Sheth:** That's right and we are also hoping that some of the boats which are in the spot market today with very poor utilization will get covered for terms business.

**Rajesh Ravi:** Another question is on the break-up for the shipping business, time versus spots charter for this quarter and going forward what should be the time spot rates in the shipping business?

**Bharat Sheth:** At the moment we have about 44-45% of the revenue days in the spot market. We will probably keep it within a band of somewhere between 40% and 60%. So in other words we will probably always have 40% of the revenue days in the spot market and going up to maybe 55-60% and the rest will always be on a period.

**Rajesh Ravi:** In this quarter you have declared to sell two of your offshore assets. Could you tell us what should be the profit amount that you would be booking in Q4 from sales of these assets?

**Bharat Sheth:** No, we do not share individual profit on sale numbers.

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

**Sachin:** In GIL, you mentioned that the numbers were impacted partly by the rig mobilization cost. Would you be able to quantify in terms of what could be the impact on the results because of rig mobilization cost?

**Bharat Sheth:** About $ 1 mn.

**Sachin:** And how many days did the rig contribute to the revenues during the quarter?

**Bharat Sheth:** During the quarter it was 50 odd days.

**Sachin:** You also mentioned that the spot market was pretty weak compared to the September quarter, so for our benefit if you could just let us know in terms of what was the utilization ratio of assets in spot market on the offshore side and what would have been a sequential movement in the day rates?

**Bharat Sheth:** In this quarter the vessels in the spot market were about 70% odd.

**Sachin:** How would that compare vis-à-vis September quarter sir?

**Bharat Sheth:** It was about 85% utilization.

**Sachin:** How would have the day rates move on the spot market compared to September?

**Bharat Sheth:** The day rates are much weaker. I would say about 30-40%.

**Sachin:** So that probably explains the sequential drop in PBIT?

**Bharat Sheth:** Some of it is due to this, some of it as we said is also due to the accounting. You had stronger Rupee so you had a translation loss on your dollar balances you also had an interest rate MTM because we have gone and fixed five years a dollar and the five year forward curve was softer as of 31st December. These are not losses. These are just translation numbers.

**Sachin:** Can you update us in terms of the ton mile demand for calendar year 2009?

**Bharat Sheth:** I would say that on tankers there is probably a 5% reduction in the ton mile demand. I think the market did not feel the entire brunt of this reduction, because there were vessels that went into storage and on an average for 2009, something like 3.5 to 4% of the world supply of different asset classes of tankers was in storage. Had the storage not taken place, I think the earnings would have been significantly lower than what they eventually panned out over the previous 12 months.
So storage has been major positive contributor to the earnings over the previous 12 months. This is on crude as well as on the clean products.

**Sachin:** How was the ton mile demand in the dry-bulk side?

**Bharat Sheth:** The ton mile demand on the dry-bulk side was a positive because of the huge import of iron ore from china, which was supplied from Brazil. Also this year we have had in the last few months' very strong demand for coal. In dry-bulk more than ton mile demand, I think one of the biggest positive factors has been the congestion because the infrastructural bottleneck – Brazil, Australia, China – none of the three countries were able to cope with the increased volume of trade. So there were weeks and months when you almost had 8 to 10% of the world fleet of Capesize vessels caught in various ports. That were led to sudden spike in the market and then we saw Capesize go from a low of $ 2000 a day to a high of $70,000 – $80,000 a day.

**Sachin:** Coming back on the tanker side, you mentioned around 3.5 to 4% of the capacity was soaked up because of storage. You see that continuing in 2010?

**Bharat Sheth:** I think it depends on couple of factors. Clearly the freight rates play a very important role and typically when the freight rates are very low, I think there is a greater incentive for people to use ships as floating storage. But when freight rates go high, if it is not matched by the contango of correcting itself and therefore the contango going higher, it does not make sense to take vessels on storage. So what I think the storage market will do, it will provide a natural flow to the freight rate, but it will also catch the extent to which the freight rate can rise.

**Sachin:** You also mentioned that deliveries in CY09 were a little lower than anticipated because of certain slippages and various factors for the same. If you could give some sort of number to that?

**Bharat Sheth:** The percentage slippage on tankers was above 20 to 25% depending on which category of vessels you look at and on dry-bulk the percentage slippage was almost 40%.
Now some of this was slippage and some of it was cancellation. But the breakup between the two is very difficult to ascertain because you are dealing with many yards, many ship owners and not all information is available in public domain.

**Sachin:** You had mentioned in some previous calls regarding some of the Governments trying to bailout the shipyards in terms of handholding them or so?

**Bharat Sheth:** Governments are clearly trying to bailout in terms of providing financing, but they are going to pick and chose. So they are not going to finance some yards as they are just beyond financing and there are some yards who with financing can survive in the longer term.
So, it is not as if every shipyard in China, every shipyard in Korea will get that level of Government support.

**Sachin:** What is the progress on the phasing out of single-hulls?

**Bharat Sheth:** We had just begun the year 2010 and the phasing out will take place. Obviously at today's rate, everybody is going to try and maximize and translate the vessel to the last possible day because all you need to earn on an old ship like any of the single-hull is just over operating cost. Anything over operating cost is a net contribution to you. Today people are earning 2 or 3 times that number.
So everybody will try and run the ship to the very last day. But the day will arrive and when the day arrives, you have to crack the ship.

**Sachin:** You mentioned that last year there was a decline in ton mile demand on the tanker side. Are we looking at better scenario in terms of ton mile in CY10?

**Bharat Sheth:** Yes, we think that the ton mile demand for tankers will be positive in CY10. On the dry-bulk side a lot depends on China and we have seen that China can switch off very quickly as we saw between November and December 2008 when it just stopped importing commodities.
Now we are hoping something like that does not repeat itself. So with that as a caveat, it is our belief that China and India will continue to require raw materials like there will be continuous movement of iron ore, steel, grains, etc., and therefore, I think on the demand side things should be okay for dry-bulk as well. But again the caveat is China because as I think I had mentioned in one of my earlier call, that 90% to 95% of incremental demand in dry-bulk is driven by China.

**Sachin:** This is regarding the coastal rates. There has been some press reports that some of the foreign carriers are trying to flag the vessels in India. Could that have some impact for local carriers in terms of the business you get?

**Bharat Sheth:** Well, it just depends on how the coastal market expands in India because the coastal market in India is for product tankers, some amount of crude oil, dry-bulk, and containers.
So it just depends in what segment and to what extent the Indian market also increases. In other words, if there is a requirement for 5 ships and if 10 ship come and register,

obviously supply is going to be greater than demand. I think we just have to wait and watch and see how the market improves.

**Moderator:** We have a next question from Mr. Vinod from CRISIL.

**Vinod Bansal:** My question is on the jack-up markets with the longer term of view. We have seen that the market has shifted more towards the deep water regions. When oil prices moves up and activity picks do you see the jack-up rates reaching its earlier highs or that would remain below that?

**Bharat Sheth:** What we have seen is that you need just marginal shift in demand and these markets get exaggerated both up as well as down. So in other words when demand falls in on a marginal basis say 5 – 10 rigs less required suddenly market tend to come down very quickly similarly a marginal improvement in the demands for jack-ups in the market can ramp up very quickly.

**Vinod Bansal:** On longer-term we have been talking about the focus shifting on deepwater markets and therefore jack-ups not being so strong any more. Do you think the impact of E&P more being on the deepwater side, not much on shallow water side, given the shallow waters have been explored pretty well now?

**G. Shivakumar:** Most of the headlines that you see are in relation to the deepwater market. The new bloacks are coming mainly in the deepwater areas. To that extent you are right. But huge amount of oil is still being produced among the offshore field from shallow field, including offshore India, there is still a huge amount of production which is coming out of the field offshore west coast of India including Bombay High, which was discovered 30 years ago. So there is a large amount of activity which continues in the old field, the new activity which is there, the exploration activity which is happening is mainly in the deepwater field to that extent you are right. But a huge amount of activity continues to happen in the shallow water field. Therefore jack-ups will continue to be needed.

**Moderator:** We have a next question from Mr. Rajat from ICICI Prudential.

**Rajat Chandak:** Has the current market value of your CAPEX come down?

**Bharat Sheth:** It is lower by about 25%.

**Rajat Chandak:** How is the funding of the CAPEX going to be?

**Bharat Sheth:** The funding would be 70-30, but I think now because of the drop in the equity we would then have to contribute more in equity because the drop in equity will not be funded by the bank obviously.

**Rajat Chandak:** Right. So basically you would maintain that 70-30 ratio?

**G. Shivakumar:** It will be 70-30 ratio on the market value.

**Moderator:** We have the next question from Pinaki from Trade Winds.

**Pinaki:** Just a little while ago you mentioned that GE would be looking to add second hand tonnage in terms of tanker or dry-bulk or even offshore. I believe you have about 6 to 7 new buildings on order which have to be delivered in the next 12-15 months. Do you wish to add second hand tonnage in offshore beyond this in addition to this or will it be only this much that you want to have?

**Bharat Sheth:** Well, we keep looking at opportunities. We have 10 odd vessels in offshore, which have to be delivered to us over the next three years.

**Pinaki:** Okay. And then would you wish to add in addition to this or will it be only this much that you need to add.

**Bharat Sheth:** No, we will look at opportunities, both for the boats as well as for the rigs. And we believe the pricing is right if we can see that there are good chances of securing a good contract, we would look at it. We mentioned there are five boats which are currently in the spot market, if we could secure long-term business for those boats either the ones in the spot market and/or the ones which are yet to be delivered to us that will give us security of cash flow and then we could look at further expansion.

**Pinaki:** Are you looking at any specific projects that might give you a long-term cash flow in the near future?

**Bharat Sheth:** As far as the boats are concerned we are looking at businesses ranging from between two years up to five years.

**Pinaki:** Especially in the international waters?

**Bharat Sheth:** Both in India as well as international.

**Pinaki:** And internationally are you looking at any specific regions or countries in the Southeast Asia or in Gulf of Mexico, in Brazil?

**Bharat Sheth:** No, we have not looked at Brazil yet, but we are basically concentrating on the Asian market, especially South Asia as well as Southeast Asia

**Pinaki:** You said you wish to acquire some additional tonnage in the offshore segment. Will it be only rigs or even boats or both?

**Bharat Sheth:** No, it will be a function of what contracts we can try and secure. As I said we do not want to just go out and do it on a speculative basis.

**Pinaki:** So it will be only after you secure a contract or you…

**Bharat Sheth:** After we secure a lot more contract coverage on our existing fleet.

**Moderator:** We have a next question from Mr. Ashish Jain from Morgan Stanley.

**Ashish Jain:** Do you provide a break-up of NAV between tankers, bulkers and offshore?

**Bharat Sheth:** No, we do not have that as a practice.

**Ashish Jain:** I see that a lot of OSVs will actually come out of contract in the current quarter plus you will also have a couple of deliveries which you will be taking and given that near-term outlook does not seem to be very strong, how do you see earnings panning out from a March or a June quarter perspective from offshore business?

**Bharat Sheth:** First of all, we do not have any of the vessels which are contracted coming out for re-pricing in Q4 or Q1 of next year. You might have just probably taken those vessels which are in the spot market. They come up for re-pricing every 5-10 days. That is number one. Number two, I think I had mentioned to one of the earlier participants that we are continuously bidding for various tenders for periods ranging from one year up to five years. What we hope is that by February we should be successful in placing some of these five vessels which are currently in the spot market for the longer-term business. So that is the second point. And the third point is the vessels, which are going to be delivered to us. Those two we have already started the exercise of trying to find customers for the long-term.

**Moderator**: We have next question from Mr. Avishek Agarwal from Proactive Universal.

**Abhishek Agarwal**: How many boats in the offshore division and on spot charters?

**Bharat Sheth:** Five.

**Abhishek Agarwal:** What has been the utilization rate in case of offshore division vis-à-vis Q2FY10?

**Bharat Sheth:** On the rig it has been the same, it is a 100%. And on the boats Q2 was 85% and Q3 has been about 75%.

**Moderator**: We have a next question from Mr. Sharma from Citigroup.

**Sharma:** Can you give the market value of the shipping fleet?

**Bharat Sheth:** That is around $925 mn?

**Moderator**: We have a next question from Mr. Rajesh Ravi from Pinc Research.

**Rajesh Ravi:** How is the scenario at ship yards? Are we seeing new orders being placed now?

**Bharat Sheth:** Yes we are,there has been a pick up in activity both for tankers as well as dry-bulk in the month of January. I think partly driven by the fact that people are a little more optimistic about their businesses and partly driven by the fact that there is more liquidity in the system. And of course, clearly driven by the fact that ship prices have come down compared to 12 months ago.

**Rajesh Ravi:** So are we seeing that vessels prices have bottomed out?

**Bharat Sheth:** Possibly on the new buildings.

**Rajesh Ravi:** Would we be seeing better utilization going forward due to better demand scenario in offshore segment?

**Bharat Sheth:** Yes, we think that the market should improve over the next 6 to 9 months, with the caveat that oil prices remain around the 70, 80 plus dollar mark.

**Moderator**: We have a next question from Mr. Pranav Singh from Dhanalakshmi Bank.

**Pranav Singh:** Could you please throw some light on the interest rate swap contract on which Rs18 crs of loss mark-to-market had to be booked?

**Bharat Sheth:** We have dollar loan and those dollar loans are either a floating rate or a fixed rate. Now, some of our lenders insist that we take a fixed rate contract on interest rates. So the fixed rate contract that we have taken we go to market down to wherever the forward curve is on your reporting date. It is not a crystallized loss. It is a translation loss.

**Moderator**: We have a next question from Mr. Vishal from Care Ratings.

**Vishal Ajmera:** What is our average cost of borrowings for this quarter?

**Bharat Sheth:** A little over 4.5% for Great Eastern and about 6% for GIL.

**Vishal Ajmera:** What is the ratio between fixed & floating loans?

**Bharat Sheth:** 60% is fixed and 40% is floating.

**Vishal Ajmera:** How do you compare the cost of borrowings, say, prior to the recessionary period and right now?

**Bharat Sheth:** I would say that the cost of borrowing has probably improved for a company like ours and not necessarily across the board. But for us I would say down, maybe 100, 200 basis points. But more important is the fact that there are banks willing to provide us the liquidity now. There was a time where even at a price you could just simply not get the transaction concluded. That situation has eased.

**Vishal Ajmera:** Is it the foreign banks they are more willing to lend?

**Bharat Sheth:** Yes, that's correct.

**Vishal Ajmera:** Is that true for every shipping firm?

**Bharat Sheth:** No, as our CFO had mentions our net leverage currently is 0.05. So obviously it becomes easier for us to follow.

**Vishal Ajmera:** Suppose if our company goes on for a new asset, how is that asset funded like? Say what is the ratio?

**Bharat Sheth:** Normally we do between 30% and 35% equity and the rest is debt.

**Vishal Ajmera:** How do we see going forward the difference between asset price and the second hand vessel prices. Is it going to decline?

**Bharat Sheth:** I think it is very difficult to answer that question. We think that we are almost at the bottom of the new building cycle in terms of asset prices. Some people could argue that it could drop another 5, to 15%. On second hand it will be a function of not just a spot market, but of the general sentiment.

**Moderator**: We have a next question from Mr. Bhavin from Enam Holding.

**Bhavin Chedda:** Can we get the number of operating days in offshore division?

**Bharat Sheth:** For Q3 FY10 it was 1475 days, in Q2 1288 days & in Q1 1089 days.

**Bhavin Chedda:** What is the FY11 target for operating days in shipping?

**Bharat Sheth:** I think it depends on how many vessels – it is a moving target because it depends on how much we take on charter and if we acquire more tonnage, then it will change.

**Moderator**: We have our next question from Mr. Tejpal from Suashish Daimonds.

**Tejpal Jain:** What is the break up of the spot and time based for the dry-bulk and tanker segment separately in Q3FY10?

**Bharat Sheth:** About 46% of dry bulk on time & 60% of tankers are covered.

**Moderator**: We have a next question from Ms. Hiral from KJMC.

**Hiral Kotak:** What sort of day rates are prevailing currently on the PSVs and anchor handlers?

**Bharat Sheth:** I think it depends on which part of the world one is trading in, but we have seen an improvement in the spot market in the North Sea. There has been some improvement from an average earning of may be 3000 – 4000 pounds to about 7,000 to 8,000 pounds per day.
So there is some more activity which we are now sensing. There is a lot more enquiries and there is a lot more demand for these kinds of ships gradually creeping in.

**Hiral Kotak:** What was the operating margin we have on the boat side like?

**Bharat Sheth:** Well, it just depends on what the boats are earning. But normally all these businesses give you some where above 50% margin.

**Hiral Kotak:** So are we currently getting that sort of margin?

**Bharat Sheth:** We are not getting at the moment because as I said our utilization rates are very low.

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

**Sachin:** How have the asset prices moved in the last quarter on the second hand market?

**Bharat Sheth:** I would say on dry-bulk, in the last quarter they are probably up by about 1% to 3% and on the tankers, I would say they are flat.
But we are seeing a little improvement if you consider the first 3 weeks of January.

**Sachin: Y**ou believe that more or less the asset prices have bottomed out on the new building side, close to bottoming out. How is it on the second hand side you would say?

**Bharat Sheth:** I would say on tankers again if the interest rates remain weak in dollars, then I think we are pretty close to the bottom. If the US interest rates go up, I think there could be some pressure on tanker pricing. Then I would say that is also true on dry-bulk pricing. But people keep having access to money at 2% and 3% then I think we are probably very close to the bottom.

**Sachin:** Would that mean that we would be looking at selectively good acquisitions?

**Bharat Sheth:** On a very-very cautious basis, because there is concern that interest rate could go up later this year and we have seen that when Government starts rising up interest rates they can go up very quickly.

**Anjali Kumar:** Thank you Ladies and gentlemen for joining us. We shall have the transcript uploaded on our website very soon. Please feel free to contact us for any other details that you may wish.