Great Eastern Shipping Company Limited.
Investors/Earnings Conference Call
(October 30, 2009)

Moderator: Good evening Ladies and Gentlemen. Thank you for standing by. Welcome to GE Shipping's earnings call on declaration of its unaudited financial results for the 2nd Quarter ended September 30th 2009. At this moment all participants are in the listen-only mode. Later we will conduct question and answer session. At that time if you have a question please press * and 1. I now handover the conference to Mr. Shivakumar, CFO of GE Shipping to start the proceedings. Over to you Mr. Shivakumar

Anjali Kumar: Good evening. I welcome all of you to the conference call for our Q2FY2009/2010 results.

We had an 81% drop in our PAT, part of that is due to the base effect. Q2 of last year was the quarter with the highest profitability in the company's history. I will first do the analysis on a standalone basis and then we can look at some of the consolidated account highlights. There was a 41% drop in the top-line partly by reduction in capacity by about 14% in days but mostly by a drop in the day rates across all segments. The average TCYs were down about 65% in crude and dry markets and about 35% in the product market. In product market though the spot markets were substantially lower, we had more of time-charters and due to this the drop in the average TCYs was not as dramatic as in the other two markets that we had discussed. The expenses were more or less in line with last year's with a little bit of cost inflation, we also had 3 dry docks in the quarter resulting in slightly higher expenses. Not including profit on sale, we had one vessel that we sold during the quarter resulting in a profit on sale of about Rs53 crs and excluding profit on sales, the PBIDT was down 71% as compared to corresponding quarter. Interest is marginally higher because of borrowings which have been done recently. Coming down to the bottom-line we have finished with the a PAT of Rs96.77 crs versus Rs506 crs, a drop of 81%.

On a consolidated basis the top-line is down about 40%. You see a large number on the hire of chartered ships which is in a large part due to the rig which has been inchartered by our oil & gas subsidiary. The PBIDT is down about 74% from Rs629 crs to Rs161 crs that is not including profit on sale. Interest is substantially higher mainly because the offshore business is ramping up operations and had a few vessel deliveries in the last 12 months. The PAT here again even on a consolidated basis is down 81% from Rs570crs to Rs108 crs.

I will just cover some of the other statistics which are frequently asked questions by the analyst during the conference call. The gross debt-equity ratio for Great Eastern standalone is 0.65 and on a consolidated basis it is about 0.90. On a net basis this is 0.15 and about 0.33. The cash balance in Great Eastern Shipping is about Rs2800 crs and in the group is about Rs3200 crs. The NAV is just over Rs.300 per share, this drop is mainly due to the value of tankers dropping during the quarter that is between June end and September end. The repayments for the group as a whole in second half FY2010 are about US$53 mn. In FY2011 they are about US$170 mn and in FY2012 are about a US$175 mn. The remaining CAPEX which will be coming in over the next 2 years Great Eastern has 7 assets of about $437 mn which are due to delivered over the next 2 years. Greatship has 12 assets of about $467 mn. Remaining payments to be made to yards are about $650 mn. The rest of it has already been paid in the form of installments. The debt to be raised in the group as a whole is approximately $400 mn. Now I would invite you to put up your questions. We have our Deputy Chairman and Managing Director Bharat Sheth and the team from Great Eastern Shipping, who will be happy to take questions from you.

Moderator: We have a first question Rajesh Ravi from PINC Research.

Rajesh Ravi: I feel numbers are slightly better as compared to what other companies have been posting, where at least your standalone business have shown profits even without considering the sale of ships. Would you just give your dry docking schedule for second half?

Bharat Sheth: We have 3 dry dockings due in Quarter 3 and 1 or 2 dry dockings in Quarter 4.

Rajesh Ravi: And how much would the costs be?

Bharat Sheth: We have budgeted approximately Rs25 in Quarter 3 and in Quarter 4 it could be somewhere between Rs 6 crs to Rs12 crs.

Rajesh Ravi: Could you just give us visibility on the offshore business. If we break it in EPS term what was the contribution to EPS from the offshore in first half and what is your guidance for second half?

Bharat Sheth: In the first half, the PAT was just about Rs48 crs from the offshore division. In the second 6 months it all depends on when the vessels will be delivered because some of the assets which are due for deliveries have yet not been fixed out on contract. The second rig that we are about to operate has arrived on the west coast of India this afternoon and we hope that we can put her to work within the next 5 to 7 days. That is being contracted for 5 years with ONGC so she should start contributing revenues from anytime between 5 and 7 days from today.

Rajesh Ravi: Okay. So no guidance on the offshore like what would be the average, approx contribution which you are seeing?

Bharat Sheth: No we do not give guidance on that.

Rajesh Ravi: What kind of TCYs are you expecting for the next 2 quarters?

Bharat Sheth: As the crude and the product are concerned I think it will be fairly similar to what we have seen in this last quarter. On the dry bulk, maybe there will be some marginal improvement.

Rajesh Ravi: How are the day rates in the offshore segment? Has there been softening or you think it is picking up post crude oil prices moving up?

Bharat Sheth: No what we are seeing is not necessarily a pickup in the day rates but slightly more inquiry coming from potential customers, but very marginal. And even in that segment of the business there are a lot of new vessels that are being delivered into the market. So overall I expect the sentiment will be fairly weakish.

Rajesh Ravi: When do you see any revival happening going forward?

Bharat Sheth: I think if oil prices were to sustain at these kind of numbers, we could see a pickup in activities sometime in 2010.

Rajesh Ravi: So in FY2011 we should be seeing day rates moving up from here?

Bharat Sheth: A lot depends on where oil prices stabilize, but gradually I think with some of the credit facilities easing, we may see a little more CAPEX in E&P activities. A lot of the smaller players in 2009 cut their expenses by 25% to 40%. In 2010 if oil prices stabilize at these numbers again due to the base effect, you might see an improvement in the absolute amounts of money that people are willing to spend on the E&P.

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

Swati Pandey: I wanted to know in tanker segments whether the rates will remain weak in the October-December quarter.

Bharat Sheth: Yes, they will remain weak.

Swati Pandey: How many of your vessels in tanker segment on spot and how many are on contract?

Bharat Sheth: Currently we have got somewhere like 6 or 7 vessels on the spot market and some of these vessels have already been committed for businesses that were written maybe in September. We have seen a little improvement over the last 7 to 10 days and if this improvement sustains the benefit of this improvement will probably come in the Jan-March quarter.

Swati Pandey: Would you like to change your number of vessels that have been put on spot and on contract?

Bharat Sheth: We think just now to put vessels on contract would be committing the vessels to very low earnings for long periods of time so we do not believe it is advisable to do it today. If of course the sentiment improves then we may reconsider.

Swati Pandey: How many of them are coming for contract renewals in October-December quarter or in FY2011?

Bharat Sheth: FY2011 a number of them come up for renewals, in October to December there is nothing. So it will really have a minimal impact for FY2010, but if you see the coverage that we have got in FY2011 it is dropped from the current coverage which is running at 58% to 25%.

Swati Pandey: In terms of outlook in dry bulk and tanker segment how much percentage drop are you seeing?

Bharat Sheth: Well I think on tankers the average seems to be running at about 70% lower than last year. I am talking about the entire calendar year. And on dry bulk probably around 50% lower.

Swati Pandey: Any more vessels you are planning to sell in any of these segments?

Bharat Sheth: No we have contracted to sell one crude oil tanker which is for delivery in April 2010 so that will have impact in the next year's results. Other than that currently we have not got anything else committed.

Swati Pandey: Any purchases in secondhand market or new buildings?

Bharat Sheth: No, nothing other than what is already contracted.

Moderator: We have a next question from Hemant from Enam Securities.

Hemant: Can you give us some understanding on what is really happening on the supply front for tankers and dry bulks in the global markets. We have been hearing that there have been slippages at the yards and there have been massive deferments. So can you give us an idea as to what kind of a percentage growth is likely to come in?

Bharat Sheth: There are a lot of numbers floating around on slippages, but it is somewhere between 30% and 50% more on dry bulk and a little less on tankers. So if you factor in the slippages and if you take the January to date numbers and then you try and extrapolate something for September to December we believe that the fleet size depending on which particular asset category, you grow somewhere between 8% to 14%.

Hemant: This is the net addition of new buildings even after the slippages?

Bharat Sheth: Yes this is the net addition after the slippages

Hemant: So given the fact that global trade demand is still catching up, coming out of its negative territories that means that the so called upward pressure or the upward rise in the recent Baltic index that we have seen and how is that come about?

Bharat Sheth: What happens is as we have discussed this often in the past, is you need marginal improvement in cargos and in ships on availability of cargos versus availability of ships and sometimes you suddenly get customers coming in to cover host of cargos within in a very tight period of time. So that is what leads to sudden spikes. And that trend I think will continue over the month or years, that really does not change because it is an inherent part of the industry.

Hemant: Another thing I noticed was you mentioned that Rs.300 per share is the NAV and you said that the pressure is mainly on the tanker side, broadly given the fact that the quantum of supplies coming in. I am just a little bit surprised that the asset values have really not fallen further. Can you give us an understanding where this is heading?

Bharat Sheth: Well there are very few transactions that are really taking place on the tanker side, while there are many more transactions that are taking place on the bulk carrier side principally being driven by Chinese. We think that it is possible that tanker values could drop a little further. Again it depends on where the freight rates stabilize and whether there is an increase credit availability in 2010, but it is possible that tanker values could drop a little more and on dry bulk I would say that it is also of similar conclusion that next year because of the lot of supply that is coming in, in spite of the slippages we could get downward collection in asset value. That is one of the reasons why we are currently holding onto cash.

Hemant: What are the lending rates at this moment and how much are bankers willing to fund?

Bharat Sheth: It depends on each individual company so I do not think there is common answer for all companies. I think a company like ours could probably fund at somewhere in the region of between libor plus 250bps and there are some companies depending on what there leverage is that might have to pay up to 500 to 600 bps over libor.

Hemant: On offshore can we have some details in terms of what is the level of operational cost per day basis?

Bharat Sheth: The OPEX on the small boats is in the region of $3000 odd a day. On the rigs it will be around $32000 to $34000 per day.

Hemant: Are we depreciating these assets over a 20 year horizon?

Bharat Sheth: Boats are depreciating over 20 years and the rig over 30 years.

Hemant: What is the total debt on offshore side?

G. Shivakumar: The total debt is about Rs. 1880 crs.

Moderator: We have our next question from Vinita Jain from East Wind Capitals.

Vinita Jain: Greatship had initiated some talks with PE firms to sell around 25% of stake and to raise some money around Rs700 crs. What is the update on the same sir?

Bharat Sheth: No, for Greatship we are looking for various possibilities on how to raise capitals, but we have not really taken any call on the same at this point of time

Vinita Jain: How much capital are you planning to raise in Greatship?

Bharat Sheth: Again it is something that depends on what value we see, so at this moment it is too premature to discuss.

Vinita Jain: What is the overall CAPEX plan that you are planning for the next 2 to 3 years?

Bharat Sheth: On the group basis it is about $904 mn.

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

Bhavin: You said that the world fleet size is expected to increase between 8% to 14% in CY2009. What is your view on CY2010?

Bharat Sheth: I think in CY2010 also you will probably get a similar slippage as you are seeing in CY2009. Therefore in some categories you would get a little more in some a little less. It will also be a function of how much of the current order book can physically be funded because on paper you will see a lot more supplies in CY2010 compared to CY2009 but some of it might not have access to capital. Now what that means whether the shipyard will, they will continue to build on proprietary account or they will just abandon the project, etc., I do not know, but and so all-in-all the growth I suspect will be at least as much as CY2009 if not a little more. On the tanker side there is a joker in the pack which is that as you know in 2010 there is a lot of mandatory scrapping to take place for the single-hull. Now we have not seen a lot of crapping so far in 2009 and that could accelerate in 2010. And if the scrapping genuinely accelerates in 2010 then the tanker supply could be a little muted.

Bhavin: According to you how much this mandatory scrapping can happen in single-hull as a percentage of overall fleet?

Bharat Sheth: About 15 % odd.

Bhavin: So if at all it happens on a full blow then the incremental supply will be much less in CY2010?

Bharat Sheth: On certain categories of the large tankers the phase-out is almost 17%. In some categories it is 10% to 12%. So if all of that genuinely get crashed during CY2010 that will subdue the next fleet growth.

Bhavin: You mentioned that the asset prices are on a correction mode and tankers can correct a little bit more. What will be the management view if at all there is a further correction, to built more on tankers or if you want to hedge your position and balance it by more of a dry bulk?

Bharat Sheth: I think on the margin is difficult to say how it will pan out over the next 5 years, but today if you see it is very much skewed in favor of tankers. And I think what we will do going forward is to try and have a better balance. So it could be 65-35, 60-40 or even 50-50 who knows.

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

Raj: Do tanker rates correlate more with refining margin of crude because as I was wondering for refiner who is purchasing crude for again selling the end product, is the refining margin is $4 and there is limit to what thet can pay to you as a tanker company?

Bharat Sheth: Well I do not think the freight is not necessarily directly derived from his GRM, but clearly what happens is when GRMs are running as low as they are currently it means globally many refineries are running at a lower utilization rate. And therefore there is less crude that they require to process. So not only does it effect the clean product market, but it also tends to effect the dirty product market because it just means that less crude and therefore you have either inventory build up or you have the commodity being stored on vessels in order to play the contango.

Raj: Lets say, at the time of repricing the time charter rates are still low, would you like to just keep them on spot and wait for revival or then you will like to lock them at around January/March levels?

Bharat Sheth: I think what we will do is some vessels we will lock up, and some we will just keep running them spot because I think what we also need to and one of the lessons that one has learnt in this market is that sometimes you may fix out for 2 years and 3 years and 5 years and then you find that counterparty is not always ready to honor those commitments. So on a piece of paper you have cover and you believe you have the cash flow guaranteed to you and then it is no longer guaranteed.

Raj: So this time I guess you will have a coverage which is lower than what you been keeping it historically?

Bharat Sheth: It is possible but it just depends on how we can re-price the asset.

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

Mr. Amrit: Can you give a breakup in terms of your spot earnings how much was spot and how much is from long-term in this September versus previous September.

Bharat Sheth: Last year, for July/September 2008, 58% of the total days were spot. And for July/September 2009 the equivalent number was 48%.

Mr. Amrit: I am just trying to understand at a theoretical level is it possible to use more of your own vessels than inchartered ones to help in the margins given that the freight rates are so low?

Bharat Sheth: No, the cost even for us if we in-charter any incremental tonnage will come down because it has to be inline with the market. What you are seeing on the paper from where you are probably coming to this conclusions is what is now reflected is the rig which we had not reflected in Quarter 2 of last year which is now reflecting in this quarter.

Mr. Amrit: Okay, when was that taken sir?

Bharat Sheth: March of 2009.

Mr. Amrit: So that will be reflected in the cost of hired in vessels.

Bharat Sheth: Yes that is right.

Mr. Amrit: Typically in winter season you do see pickup in oil products. Has that demand not picked up this year?

Bharat Sheth: We had seen a little pickup in the crude oil demand, now sometimes these things work with a lag.

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

Ashwini: I just wanted to know how have deliveries picked up in 2Q compare to 1Q, the global deliveries?

Bharat Sheth: The global deliveries have been a little higher in Q2 compared to Q1.

Ashwini: I was seeing like China has a nominal imports of iron ore in September , is this because the deliveries have been higher in September month?

Bharat Sheth: You cannot go month on month because there are all these time lags. What you are seeing a delivery is into the port which means then you have to go back 45 to 50 days to see when the cargos were loading. I think so there are timing mismatches between supply of vessels. You know the loading dates, the discharging dates. etc. but yes we have seen in the last 10 days a 15% to 20% improvement on the large dry bulk vessels.

Ashwini: Would this be because maybe some ships were idling so they are back into market or ships which are lined up in queue, at the Chinese ports those were freed up or the new vessels themselves are coming in the market?

Bharat Sheth: No, I think it is really the new vessels because on the dry bulk side since about February-March of 2009 everybody has been earning well over operating cost. So there is no need to lay-up the tonnage. The last time we saw any meaningful lay-up was during the peak of the crisis ie.November 2008 to February 2009. And the congestion has broadly been the same so it is not really release of so many ships due to a significant easing in congestion. That is being mainly due the net supply of tonnage coming in from the shipyard.

Ashwini: I needed the gross block, gross debt , cash and what is the investment in GIL?

Bharat Sheth: As far as the debt is concerned the gross debts between the shipping as well as the offshore runs at about Rs5300 crs. The group cash is Rs3200 crs. The investment in offshore is about Rs1100 crs. The net block is Rs5700crs between both the companies.

Ashwini: This block would be including the new rig?

Bharat Sheth: No, the new rig came in only in the month of October so this is the block as of 30th September.

Ashwini: How much did you spend for the new rig?

Bharat Sheth: The delivered cost of the rig is just a little over $200 mn.

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

Sachin: In the last quarter conference call you had mention that there are signs that the governments were looking at some sort of deals of pumping a lot of money to support the shipyards. Any updates on that?

Bharat Sheth: What we are hearing is there is support being given by the Korean government as well as the Chinese government.

Sachin: Okay. Assuming that this were to happen for the next 3 to 4 quarters would the delivery be much more than what you had mention in the previous queries?

Bharat Sheth: No, because you know it is impossible to talk on the slippages, so we have not assumed in what we are telling you what we think can happen in Cal-10. We are just assuming that there is natural rollover of slippages because what happens is once you know slippages take place you cannot go and produce 10 ships in a month.

Sachin: Could you let us know the average utilization rate for September quarter in GIL?

Bharat Sheth: For vessels it is somewhere between 80% and 85% and as far as the drilling business is concerned it is 100% utilization.

Sachin: How is the subsidiary funded in terms of the cash that is available with them and the internal accruals that they will generate, would it be sufficient to make the equity commitment for this pending CAPEX as well as the debt repayment if they may have to do or would they require some more additional support either from GE Shipping the parent or you may have to look for some sort of a dilution in Greatship India?

Bharat Sheth: No, based on our internal projections and looking at whatever rates they are earning, Greatship and their own subsidiaries will have adequate resource to meet the capital funding requires.

Sachin: Is it that some of the asset classes on the spot market were not able to recover either the cash cost or the operating cost for such a scenario that we experienced in Q2?

Bharat Sheth: On some of the voyages what you say is correct but if you then take an average, we were earning above all the costs

Moderator: We have our next question from Mr. Anirban from Dow Jones.

Mr. Anirban: You had mention fund raising plans for Greatship India. What happened to that. Would you be able to quantify how much funds are you raising in the next one year or two years for your subsidiary?

Bharat Sheth: We have not really taken a decision, I had just answer one of the earlier gentlemen who asked whether Greatship India has got adequate equity returns phase to fund this committed CAPEX. And the answer to that is yes it does. We will earn. We are in the process of looking at various fund raising exercises for Greatship but we have not really taken a decision on what is the most efficient way to raise these resources.

Mr. Anirban: You plan to sell one ship which is supposed to be delivered to you in April 2010? how much revenues do you did you expect to extract out of that?

Bharat Sheth: We are bound under a confidentiality agreement in the sale contract. We have not given out that number.

Moderator: We have our next question from Mr. Parag Gupta from Morgan Stanley.

Parag Gupta: Firstly could you tell me based on the current asset values do you believe you need to create an additional provision of foreign payment on any of your assets?

Bharat Sheth: It is a check that we will do at the end of the year. And at the moment we do not think that it maybe necessary but it depends on what the earnings are then. So we will test in the January-March quarter.

Parag Gupta: Sure and if you believe that asset prices could rebound from here, do you think it is going to be a process that could happen within a year or its going to take much longer given where the markets are?

Bharat Sheth: If you see dry bulk values went up from their lows of February/March and then they have come of for about 5% in spite of reasonably healthy earnings currently. On the tankers we have seen a correction and it is our belief that the correction that we see has probably not enough. We could see a little more correction sometimes over calendar 2010.

Parag Gupta: Are there any expenses that you might book because of forfeiture of advances in the Kamsarmax cancellation?

Bharat Sheth: We cannot comment on it because of confidentiality agreements with the yards. I mean there is nothing left to be done. The deal is over. There is nothing else that now needs to be debited to our profit and loss.

Parag Gupta: Out of your total tanker fleet how many of these vessels would be single-hull tankers?

Bharat Sheth: We have about 88% on deadweight terms is double-hull.

Moderator: We have our next question from Pinaki from Trade Winds.

Pinaki: At the end of the last quarter results you mentioned that you would certainly be looking to share to cut down two more orders. Are you still looking to go ahead with that or you are planning to stay with the same orders?

Bharat Sheth: No, what we said was that we were in the process of canceling just one bulker at that time which as I was just telling one of the earlier gentlemen we have done so currently we are not in negotiation with any shipyards to downsize any further.

Mr. Pinaki: In context of the scrapping of single-hulls as you mentioned with the earlier participant that you will probably be looking to scrap your tankers. So will that be an opportunity for adding or representing it with another modern double-hull tanker from second hand market.

Bharat Sheth: No currently we do not have any plans to acquire because we already have a committed expansion.

Moderator: We have our next question from Mr. Saket from Newswire 18.

Mr. Saket: You have recently raised some Indian rupee money?

Bharat Sheth: We have raised close to Rs 700 odd crs.

Mr. Saket: Why Indian rupee loan, is it because finances are not available in the international market?

Bharat Sheth: This is basically for us to diversify the way in which we raised capital, so we have gone to international banks to fund a specific ship acquisitions and clearly that source of capital is under pressure so we felt that it is part of the process that we might as well try and access another form of capital and we were then successfully able to trap this particular market.

Mr. Saket: The cost of these funds turns to be significantly higher than what you have been raising earlier right?

Bharat Sheth: I would not say significantly higher but in today's context I would say that it is probably broadly inline with what one could do elsewhere.

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

Rajesh Ravi: Wanted to understand that your jack-up rig OPEX level is coming at around $32000 per day and if it is being contracted at $140000 to $150000 so that is all the OPEX that you are having?

Bharat Sheth: Yes and on that you have to add the interest and the depreciation charges.

Rajesh Ravi: What kind of EBIDTA margins do we get on offshore vessels?

Bharat Sheth: Well it depends what the earnings are. But it is somewhere between 60% to 70%.

Moderator: We have a next question from Mr. Paresh from Birla Sun Life.

Paresh: Has the NAV come down mainly because of increase in debt?

Bharat Sheth: No mainly because of a drop in value on tankers.

Paresh: You said that 15% of the fleet which is single hull which can go out can get some levy?

Bharat Sheth: Well there are little provisions within the guidelines that could permit domestic trading on some of the vessels, but clearly we think that eventually there is no way to hide for the single hulled vessels because when overall the freight markets are low for the double hulled themselves the single hulled are going to find it increasingly difficult to find a home for any kind of meaningful trades. And logic tells us that these vessels should in some form either get scrapped or get converted into some other asset class. We saw some crude oil tankers getting converted to dry bulk vessels, we saw some crude oil tankers being converted to FPSO project so eventually they will move out of the trade. I think that writing is on the wall. And what I meant was it is impossible to time whether it will all happen, these things can happen, spread over 6 months, 12 months, 18 months.

Paresh: But is an extension of 2010 date possible?

Bharat Sheth: Yes.

Paresh: That is also possible.

Bharat Sheth: It is not easy because it is limited to certain jurisdiction. So for example if Government of India were to decide that they want to continue trading single hulled ships and receive them at Indian ports that could be done but then you are also depending on the load port.

Paresh: One more question on the availability of credit, now has the situation improved or still the situation is pretty bad?

Bharat Sheth: I would say that it has probably improved for companies with low debt to equity ratio and with not significant commitments going forward but it is really not improved very much for those who are already on a high leverage curve.

Moderator: We have a next question from Mr. Anirban from Dow Jones.

Mr. Anirban: Wanted to know the division between the percentage of revenue, that the shipping segment would contribute and as compared to the offshore segment?

Bharat Sheth: It is difficult to give a exact percentage and the reason I say that is because we have so many vessels on the spot market. So it becomes almost impossible to provide that number, because you have seen that the volatility of those vessels which are trading in the spot market are very significant.

Mr. Anirban: And now that you have got your second oil rig in October do you expect higher revenues from your offshore business?

Bharat Sheth: That is correct.

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

Mr. Bhavin: **W**ould you be in position to share the operating days in the quarter in the offshore company in terms of boat and rig?

Bharat Sheth: It is 2400 days.

Mr. Bhavin: **T**he interest cost for the bonds must have been swapped. So what is the final rate.

Bharat Sheth: We booked it on 6%.

Mr. Bhavin: A lot of the incremental capacity had come in product tankers, just wanted to check the scene on that side?

Bharat Sheth: Clearly the GRMs are under pressure worldwide and consequently we find many refineries are not operating anywhere close to 95% to 100%, we find many refineries are operating in the lower 80s. And as a consequence of that clearly there is a lower growth in the anticipated volume of product trade at the same time the supply of the product tankers has been quite strong it is running at close to 14%, but we saw a last year the product tanker also grew at 14% but in spite of that because demand was so strong in the previous fiscal year that the product tankers had a very strong year. This time unfortunately what has happened is the trade has not grown but the supply continues to grow at 14%.

Moderator: We have our next question from Mr. Chetan Kapoor from B&K Securities.

Chetan: What is your outlook on the offshore segment and is there any expectation of overcapacity coming in that segment also?

Bharat Sheth: In certain asset classes yes there is overcapacity in that sector as well. What we believe is that if oil prices remain at these numbers over the foreseeable future then we could see many of the marginal E&P players who had undertaken significant cut downs in their CAPEX to come back to the marketplace enhance their CAPEX spending for 2010 onwards. And if that scenario pans out than we could seen an improvement in average earnings going forward, but there is a lot of supply that has to come into the marketplace some of it is coming in from Chinese shipyard and just like what we discussed on bulk carriers and tankers, there is a possibility that many of these assets will now get built, primarily due to access to funding. So we could again see a lot of cancellations even in the offshore sector.

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

Sachin: You mentioned that for the current CAPEX the internal accruals and the equity currently should be sufficient, you also mentioned that we have started looking at option available in the market. So does it mean that we are looking at opportunities beyond what is currently committed for the offshore business.

Bharat Sheth: I think we would also look at the possibility of growing inorganically because what has happened now the backwardation is no longer relevant today as compared to what it was last year or the year before that. So in fact today vessels that are in the water are probably cheaper than new building which is a big reversal in the scenario compared to what we had seen when the markets were very strong. So in all probability even if we were to expand it is most unlikely to be by building, we would probably go for something in the water.

Moderator: We have a next question from Mr. Chirag from HDFC Mutual Fund.

Mr. Chirag: Actually I had three questions, my first was on the addition that you mentioned to fleet size of 8% to 14% is that after accounting for slippage or before?

Bharat Sheth: No that is after accounting for the slippage. It is based on actual data from Jan to October.

Mr. Chirag: I am talking about the addition that you are expecting for FY2010?

Bharat Sheth: Yes so what we said was that basically Jan to October basis empirical data and then if you just extrapolate and equivalent slippage because then it is just like an assembly line so logically the slippage of 2009 does not mean all of 2010 will deliver it, it will have to be an equivalent slippage, because there is a limit how much a yard can deliver on a given date. So assuming an equivalent slippage that is what I meant.

Mr. Chirag: Right. And in terms of the pending order book that you have yet to be delivered if you were to mark-to-market that to today's prices how would that defer in terms of what kind of change in value would you see?

Bharat Sheth: About a $150 mn.

Moderator: Thank you sir for your questions. As there are no more questions, I would now like to hand the conference to Ms. Anjali Kumar. Ms. Anjali, please go ahead.

Anjali Kumar: Thank you all of you for joining and asking the relevant questions. We will be putting up the transcript in a couple of day on our website. And please feel free to contact us for any other details that you may wish. Thank you.

Moderator: Thank you. Ladies and gentlemen this concludes that conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now.