The Great Eastern Shipping Company
Q1'FY12 Conference Call
(August 8, 2011)

Moderator: Good evening ladies and gentleman. Thank you for standing by. Welcome to GE Shipping's Earnings Call on declaration of it unaudited financial results for the first quarter ended June 30th, 2011. 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 would now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communication at the Great Eastern Shipping Company Limited to start the proceeding. Over to you Ms. Kumar.

Anjali Kumar: Good afternoon everybody and thank you for joining us for this Q1FY12 results conference call. Since the meeting was held on Friday, I hope you all have been able to go through the results. I will now hand over the stage to our CFO, Mr. Shivakumar, who will give a brief snapshot and then we can move to the Q&A session.

Shivakumar: Good afternoon everybody. We will proceed with sharing the standard information that we normally discuss at every quarter conference call. As of 30th June 2011, the Company's standalone net asset value taking our investments in subsidiaries at cost stands at Rs.340 per share and on a consolidated basis i.e. taking the revaluated assets of the subsidiaries at market value, the NAV stands at Rs.445 per share. We also have a lot of the other ratios which are given in the press release. We will now proceed to the Q&A session.

Moderator: The first question is from Mr. Nikhil Vora form IDFC Securities.

Nikhil: Even though we are seeing a weak trend in the shipping business for the last few quarters, the numbers reported for Q1FY12 are fairly decent. So could you just elaborate on the trends that you are looking forward and what's really enabled us to still have a fairly resilient performance in the shipping business?

Shivakumar: One of the things to look at in the June ending quarter was the decrease in dry docking expenses. We had only one vessel which went for dry docking in this quarter. So it's just a question of timing this activity from one quarter to another. For the rest of the year, we will be having around 10 vessels which will be going for dry docking. So the expenses will be apportioned accordingly. Apart from that, we had an income from gain on sale of vessel to the tune of Rs46 crs, which also helped to improve the results. So, these are the 2 key factors to look at.

Nikhil: If you look at the freight rates across all asset classes we are pretty much at the bottom in the last seven-eight years. Is shipping business still viable at the current freight levels and what's the sense of reversal of trend from here on?

Shivakumar: At the current spot markets, I don't think there are many assets which have been acquired in the last eight-nine years and with any reasonable gearing, i.e. anything more than 50% gearing, will be breaking even. Good thing is that this situation offers opportunities to acquire ships because lot of the world shipping fleet will just not be able to sustain at these numbers and therefore we believe that at some point, we will get prices that make it attractive to buy and which will make good investments over the long term

Nikhil: This time around, we have actually been selling vessels in the current freight cycle. So are we really looking at adding more tonnages now? What is the fleet addition likely to be globally in the current financial year?

Shivakumar: If you see we haven't sold many modern ships in the last couple of years. The ships that we sold were older assets largely the non-double-hull vessels whose trading viability would have got severely restricted in this kind of weak market. This is the main reason why the average age of our fleet has drastically come down in the last 2-3 years.

Nikhil: What was the rationale behind the VLCC sale?

Shivakumar: In such an uncertain shipping climate, VLCCs constituted a large exposure. As you must be aware we have an equally large exposure in the offshore business especially in the drilling business, which relatively has stable business outlook. This was more of a switch from crude carrier exposure to jack up rig exposure.

Nikhil: What are your expectations on the supply side?

Shivakumar: The supply pressure on both the sides is pretty scary. On the tanker side it is around 22%, considering the fact that most of the scraping which had to happen is already happened on account of the 2010 deadline. In the dry bulk segment, it's a number in excess of 40%. We hope that may be 30% to 40% of the order book will not be delivered if owners are not in a position to take delivery of the assets. But still it will be a tough scenario looking at the fact that there is not too much of cargo movement in the western economies.

Moderator: The next question is from Mr. Bhavin from B&K Securities.

Bhavin: The profitability numbers in the offshore side have not shown any significant rise inspite of the full impact on account both the rigs being in our books & operational throughout the quarter. Can you provide some clarity on this? Also how has been the utilization of all the offshore assets?

Shivakumar: One is of course that there is no profit on sale in the offshore segment. The second is yes there has been this big increase in EBITDA on account of buying over the rig that we had on charter. However, that's been off set by the slightly low utilization in the other two parts of our business. One of which is the offshore logistic business. We have a five year contracts in Brazil for two ships and these ships were being mobilized for that contract and therefore the utilization level was low. This was same in the previous quarter as well because they were undergoing the work prior to proceeding for that contract. Those two ships of course are now on the hire and therefore we hope that utilization will improve substantially. The other part of the business is the subsea business, which is the new business for us where we have three vessels committed. Again these vessels are working on short term contract and because of that again there was a slightly long period of idling for one of those assets, which resulted in low utilization levels. Now one of the ships is on medium term charter for five to six months and the other vessel is being put in the bid into various contracts. We expect that utilizations will improve over the coming quarters.

Bhavin: The offshore EBITDA margins are about 54%. Do you see margins improving from here?

Shivakumar: Typically, on an offshore time charter business, the EBITDA margins should be around 65-70%. However, in the subsea market, the expenses go up exponentially especially when you are operating in jurisdiction like Australia where the operating expenses are very high. So even though these expenses are compensated in the topline, but on a percentage margin basis they suffer substantially. So it's difficult to forecast that, but on a straight time charter basis, we should be looking at somewhere around 65 odd percent.

Moderator: The next question is from Mr. Ashish Jain from Mogan Stanley.

Ashish Jain: Sequentially i.e. Q4'11 over Q1'12, the offshore margins have declined to a large extend. What can this be contributed to?

Shivakumar: It is because of the low utilization and increase in the expenses related to subsea projects.

Ashish Jain: Secondly, could you share your views on how product tanker business is playing out, because the TCYs on a y-o-y basis are up by around 4-5%? What is your outlook on it?

Shivakumar: In terms of trade, product business is much fragmented and you have many traders taking position in it as compare to crude business. Arbitrage opportunities are also high in the product trade, which in turn increase the cargo movement. The second is that you can actually maximize utilization by done smart trading, triangulations, getting back haul cargos, which we have been doing successfully over the last few years as we build up position in the market. Due to all these commercial expertise we manage to get a higher yield as compared to market. The third is that there is a pretty decent trade in and around India for products and here we have deep understanding of the markets, which puts us in a position to take advantage and position our ships for that trade. So basically we are very positive on a product trade as compared to the crude & dry bulk trade.

Ashish Jain: What is the supply that is coming in the product side in the next 12 months or so?

Shivakumar: We expect fleet growth in the next year to be around 5-7%.

Moderator: The next question is from Mr. Vikram Suyravanshi from Antique.

Vikram: How much advances have we have paid to ship yard for the VLCCs?

Shivakumar: So far we have paid approximately $150 mn to the yard as stage payments.

Vikram: How will the delivery process happen??

Shivakumar: We will take the delivery from the yard and then give it to the new buyers.

Vikram: How many ships will be going for dry dock in this financial year?

Shivakumar: We expect about 10 dry dockings and layups within the next three quarters of which around four will happen in this second quarter.

Vikram: The coverage days for AHTSVs, MPSSV are quite low compared to other assets. How do we see this going ahead?

Shivakumar: The coverage days for AHTSVs are likely to improve within few weeks as they will be going in for short term contracts, which may be four to six months. With regard to the MPSSVs**,** we don't expect that there will be much of a cover for those because these vessels are expected to be operating in the subsea business which is more of a project business and therefore will not have our time charter type of employment. Therefore, you can expect that the coverage on the MPSSVs will be typically low

Moderator: The next question is from Siddharth Khemka from Centrum Broking.

Siddharth: Can you give me the mix between spot and charter in each of the segments?

Shivakumar: In the tanker segment, we had approximately 50% of the days in the spot market and in dry bulk segment 59% of the operating days were in spot.

Moderator: The next question is from Mr. Chetan Kapoor from IDBI Capital.

Chetan: Have you seen some kind of stability in the asset price in the product tanker segment?

Shivakumar: Actually that is one of the segments where we have seen asset values going up slightly. We had a few vessels been sold in the market and have seen an uptick in the prices.

Moderator: The next question is from Mr. Bhavin Chheda from Enam Holdings.

Bhavin: Can we get the breakup of the 213 inchartered days**?**

Shivakumar: All the 213 inchartered days were in the tanker segment.

Bhavin: Can you give the number of earning days for the offshore segment?

Shivakumar: In Q1FY12, earning days in the offshore segment were around 1440 days.

Moderator: The next question is from Mr. Rajesh Ravi from Karvy.

Rajesh Ravi: Will we have the similar number of incharter days in coming quarters?

Shivakumar: Yes, we expect that it should be around the same levels.

Rajesh Ravi: How do you expect the dry bulk charter rates to perform in the coming months?

Shivakumar: The dry bulk charter rates have dropped since the last quarter. The freight rates for the smaller vessels have been relatively stronger than the large sizes. So the Capesize may be $8000 to $10,000 a day, but the Supermaxes and Panamaxes where we have a larger presence are still somewhere in the region of $12,000 to $14,000 a day..

Rajesh Ravi: What are the cotract periods for both the Jackup rigs?

Shivakumar: One of them is on contract till October-November 2014. The other one is on contract till February-March 2012.

Rajesh Ravi: With the current turmoil again building up and crude prices expected to come down, do you see softness in the offshore activities which were witnessed post Lehman crisis?

Shivakumar: We don't expect so because that was the $35 to $40 per barrel market, and the current market which is around $80 per barrel is still healthy. There were two things that actually happened in 2009 that really killed the market then. One was the price of oil and the second was liquidity and funding which got dried up and therefore the smaller players were just not able to get funding for their projects and therefore drilling activity dropped off. This time we are not seeing that

Moderator: The next question is from Mr. Nikhil Vora from IDFC Securities.

Nikhil: On the NAV, we are still hovering close to Rs. 350 per share for some quarters while the freight market has collapsed more than 60-70%. Why are the asset prices not falling down?

Shivakumar: It is probably liquidity driven and it's also frustrating for us because we are unable to get the opportunity to buy ships because the prices of ships seem quite elevated relative to the value that they offer. So there is a bit of disconnect between the prices of ships and what earnings they have. The prices haven't gone down much in the last year and that's why the NAV hasn't gone down that much. We had some hopes when some of the ships of the bankrupt players were auctioned in the market. These were all modern product tankers that actually went for 5%-7% above what the market expected.

Nikhil: What is the update on the fund raising plan of the offshore subsidiary?

Shivakumar: That's on the back burner for now. Greatship is fully funded for their committed Capex. So they don't have any requirement for money as of now. So that's something which we will revisit a little later.

Nikhil: When have we seen this kind of negative freight markets?

Shivakumar: It was around 2002, when we saw a sustained weak freight market.

Moderator: As there are no more questions, I would now like to hand over the conference to Ms. Anjali Kumar.

Anjali Kumar: Thank you very much for participating in this conference call. The transcript of this call will be put up on our website in few days.