Great Eastern Shipping Company Limited.
Investors/Earnings Conference Call
(July 31, 2009)

Moderator: Good evening Ladies and Gentlemen. Thank you for standing by. Welcome to the GE Shipping earnings call on declaration of it's un-audited financial results (provisional) for the 1st Quarter ended June 30, 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 now handover the conference to Ms. Anjali Kumar, Head of Corporate Communication at GE Shipping to start the proceedings. Over to you Ms. Kumar.

Anjali Kumar: Good evening ladies and gentleman. Welcome to our con-call for the Q1 results of FY2010. Today we have with us the entire team from Great Eastern and our Deputy Chairman and Managing Director, Mr. Bharat Sheth, Mr. Shivakumar, our CFO will give us a brief snapshot of the financial performance post which we will take questions.

G Shivakumar: Our results reflect the circumstances and the market conditions under which we are operating. The dramatic change in the global economy over the last 12 months has started taking its toll on our results. And we have seen our top-line dropping by 34% from the corresponding quarter of last year. Some of this was due to a volume change with revenue days dropping by about 5%. I am referring to the standalone results in this analysis, we will come to the consolidated results later. The top-line is down by about 34% and this was cushioned by our time charters on some of our vessels. And therefore though the average spot rates were down between 65% and 75% for various segments of dry bulk and tankers during the quarters, we did not get affected as much. The profit on sale number is also down from last year and we are down from Rs254 crs to Rs 119 crs. Last year in the 1st Quarter we sold and delivered five vessels and this year this quarter we have sold three vessels. The overall operating days were down around 9% and the OPEX was up about 3% despite the drop in operating days mainly because most of the expenses are denominated in Dollars and the exchange rate between Q1 last year and Q1 this year has changed by about 20%. So on a Dollar per day basis we are slightly lower than we were in the 1st Quarter of last year.

And I must point out one specific item in our accounts which is item #2(e) under expenditure on which we have also put a note in our accounts. This relates to a non-cash charge mainly on account of revaluation of bank balances, foreign currency bank balances, debtors and creditors which again with the Rupee strengthening from Rs 50.7 in March 2009 to Rs 47.9 in June 2009. We have to take a hit of about Rs 90 crs on account of that. This is a non-cash charge in our accounts. As a result of the drop in the charter rates and the realization on the ships, the operating PBIT is down by about 55% from previous year. Depreciation is slightly higher than the previous years, one on account of the AS11 impact of the previous year which is the foreign currency loans impact being added to the value of the ship, which mainly happened during FY2009. Also we added some ships in the last six months which has increased the depreciation.

The interest cost is down from Rs 38 crs to Rs 31 crs, despite an increase in the debt number. This is mainly because the interest rates have dropped worldwide, especially

LIBOR rates have dropped substantially. Our average interest cost has dropped from just over 6% in Q1 last year to about 4% in Q1 of this year. Finally PAT is down about 67% from Rs 387 crs to Rs126 crs.

I would just like to do a short reconciliation to draw your attention to make a comparison on a like-for-like basis, stripping up two exceptional items which do not relate to the operations of the company, one is the foreign currency impact and the other is the gain on sale of ships. Rs 418 crs is PBT for last year and you deduct the profit-on-sale which was Rs 254 crs and you add back the foreign currency translations impact which was Rs 137 crs. We arrive at operating PBT of Rs 301 crs. Against that if you do the same entries in the current quarter, we will find that out of the Rs150 crs PBT, we reduced the Rs 119 crs profit-on-sale and add back Rs 97 crs, which is the foreign currency translation and we reach a number of Rs128 crs, which is the operating PBT of the company. So we have a drop from Rs 301 crs to Rs128 crs which is about 58% drop in our PBT on an operating basis without currency and gain on sale impact.

Now coming to the consolidated numbers the contribution from the subsidiaries on the top-line has gone up from about Rs195 crs to Rs250 crs, so we have about a 25% increase in that. The PBIT has also gone up by similar percentage from Rs40 crs to Rs50 crs. The PAT is down because there has been additional depreciation and interest in Greatship specifically because more of their vessels have joined service and therefore the PAT contribution has come down from Rs40 crs to Rs28 crs.

Finally the liquidity position of a company is quite comfortable. Currently we have a liquidity in access of $500 million equivalent. And despite the somewhat gloomy market outlook we are reasonably well positioned to ride out this. The debt equity ratio on a net basis for GE Shipping standalone is approximately 0.15. On a gross basis it is approximately 0.60. Now we would like to take questions. I will hand the floor over to the Moderator.

Moderator: Thank you sir. Ladies and gentleman we will now begin the live question and answer session. If you have a question please press * and 1 on your pushbutton phone and await your turn to ask the question when guided by the facilitator. We have our first question from Mr. Chirag from HDFC Mutual Fund.

Chirag: Can you give us an outlook on each of your businesses please?

Shivakumar: The outlook remains tied to the state of the global economy and we get all kinds of opinions from the experts, the economists of varying schools and so we are very closely tied as a participant in the commodity trades We are very closely tied to the global economic outlook, one thing that continues to weigh on our specific business is the large order book, so that is one worry that we have. And we will require a strong revival for our markets to come back strongly anytime soon.

Chirag: Would you like to give more specific comment on each of the individuals markets, because it seems on the dry bulk market there has been some extent of recovery from the bottom in the dry bulk market?

Bharat Sheth: Yes I will take that question, let us start with oil, which is the bulk of the business. From what we understand it is unlikely that there is going to be a significant revival in the underlying demand for oil for the next few quarters. Everybody is talking about a very, very feeble recovery particularly in the western areas of the world, which consume a lot more oil. Also as you can see there is a big overhang of oil inventories in OECD countries it is running in excess of 24 days which is almost 3 to 4 days more than required. There is also more than 200 million barrels of oil floating as storage on various ships, so if you factor that into account we have got an issue where the oil inventories will first need to be drawn down quite significantly before we see OPEC pumping any further crude oil. So in short on the oil side, we see very little chance of a meaningful improvement. On the dry bulk as you rightly pointed out there has been an overall improvement predominantly driven by the China's demand for iron ore as well as coal, but we must remember that basically there is only one player in town which is China. And as we saw at the end of last year if the Chinese suddenly decide that they do not wish to import for whatever be the internal reasoning, you can see very fast correction in freight rate. So on the demand side on dry bulk everything hinges on what China does over the next few quarters. On the supply side, as Shivakumar pointed out both on tankers as well as on dry bulk there is a larger supply of tonnage expected in the next six months compared to the previous six months. So you should logically get a larger supply of tonnage coming into the market on a net of scrapping basis and demand is pretty uncertain at the moment.

Chirag: And how much would you estimate that to be on the net supply side?

Bharat Sheth: The net supply side varies across different assets classes but ranges between 4.5% to 7.5% maybe even 9% depending on who's data you pickup and which asset class we are referring to.

Chirag: And that is in the next six months?

Bharat Sheth: This is the actual net growth that we have seen from January to June and I think it will be a little higher between July and December, but there are a number of ship owners who are trying to differ deliveries and obviously it is impossible to know how many will succeed and how many will not, but let us say broadly it would not be less than these numbers, if anything it will be the same or it could be more.

Chirag: My last question was on the product side, what the outlook there?

Bharat Sheth: I have included products as part of tanker demand, because if you see global utilization on products is running at about 84% to 85%. Again virtually there is huge demand disruptions on distillate and aviation fuel, gasoline demand in the United States which is the biggest driver of this commodity has been reasonably stable, but all in all I think there is going to be a difficult period going forward.

Moderator: We have a next question from Ms. Vinita .

Vinita Jain: What is the business strategy that GE Shipping is now planning to take to overcome sales in these current market situations and what kind of expansion plans or any kind of business strategy that GE Shipping has?

Bharat Sheth: If you just take our overall revenue days, approximately for the rest of this financial year we have approximately 55% of our revenue days are covered. On the balance 45% I do not think we will do anything, we will probably keep that percentage intact and the reason I say is that in the very, very low levels we are very reluctant to go out and pick ship. I have said in a couple of previous occasions that shipping is a peculiar business and you know slight shifts in demand can create a pretty accelerated impacts on freight structure. So at these low levels we probably not build our period cover much more than what we have at the moment. As far as acquisitions is concerned as you know between GE Shipping and our oil & gas business we have little over a Billion dollars of expansion that is already committed. So all in all I think we will just sit on the existing cash.

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

Mr. Bhavin: Could you share with us the gross debt and the cash figures for both the standalone and the subsidiary?

Bharat Sheth: We have about Rs 2989 crs of debt and approximately Rs 2190 crs of cash in GE Shipping and in the subsidiary company we have close to Rs270 crs of cash and about Rs1547 crs of debt.

Mr. Bhavin: What would be your NAV at this point of time?

Bharat Sheth: The net-asset-value for Great Eastern is just about Rs.320 per share.

Mr. Bhavin: On the cancellation of the dry bulk order recently, just wanted to take your thoughts on that. Are we trying to downsize our order book or is it the outlook on the dry bulk market that was reflected in that decision?

Bharat Sheth: No I think we were trying to downsize the order book. It is difficult to tell what the markets will be in 2011, but we just felt because we do not know how long this poor demand will continue for various commodities. And there is a lot of supply coming into the markets between the rest of 2009 and all of 2010 and 2011. So we felt that we will be a little more on the cautious side. We got this opportunity and we took it.

Mr. Bhavin: Are we also looking for opportunities to downsize our order book on the offshore side or that is not the case?

Bharat Sheth: No that is not the case.

Mr. Bhavin: If you could also share with us the repayment schedule for the debts in both standalone and subsidiaries?

Bharat Sheth: For GE Shipping, this year there is $114 mn of which about 25% or 30% have already paid off. In FY2011 we have $107 mn and FY2012 is about $102 mn. In our subsidiaries it is $20 mn for this year, $61 mn in FY2011 and $76 mn in FY2012.

Mr. Bhavin: In the recent times have you seen some kind of increase in the tendering activity happening particularly on the jack-up side?

Bharat Sheth: We have not seen anything really of sort on longish term. I was reading a report last week where it was mentioned there is a big spurt in activities in Gulf of Mexico. But nothing really in terms of any meaningful period.

Mr. Bhavin: Can you also share with us in the offshore subsidiary what is on spot and what is tied up?

Bharat Sheth: Out of the 12 vessels in water, all except one vessel are on term charter..

Mr. Bhavin: I was just looking at the press release, where the revenue visibility on the offshore side is about 58%. So I guess 42% of our vessels will be coming up for renewals?

Bharat Sheth: That is right there are vessels that are coming up for renewals. What is happening is lot of charters have options and therefore it becomes impossible to ascertain whether the option will get exercised or not. Now whether a project completes in October, completes in September or indeed goes on till December, is really in the hands of the client. It becomes a little difficult to know very precisely when that particular asset will get redelivered.

Mr. Bhavin: Do the percentages that we give out in terms of coverage does not include the options ?

Bharat Sheth: No. because option is not our option.

Moderator: We have our next question from Ms. Soumaya of Morgan Stanley.

Ms. Soumaya: Could you please give a breakup of NAV between the tanker and the bulker side?

Anjali Kumar: We have never given that in the past so I do not think it will fair to expect that.

Ms. Soumaya: Is anything coming up for renegotiation in shipping business?

Bharat Sheth: Yes, there are two assets that come up for renegotiation. One on the tankers side and one on dry bulk, between September 2009 and February 2010.

Ms. Soumaya: A little bit more on the cancellation of the ship, I believe that from a Korean Shipyard, is there any penalty charges that the company would be paying and if you could quantify that please?

Bharat Sheth: That is something that we are not at liberty to discuss, if there is anything that will get reflected in the Quarter 2 results.

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

Swati Pandey: I want to ask is you said that you have a Billion Dollar expansion between GE Shipping and your oil and gas business…?

Bharat Sheth: In the excess of a Billion dollars, yes.

Swati Pandey: so what are you going to do in the coming quarters, I mean do you have plans with buying more vessels?

Bharat Sheth: No, not at the moment, we are just consolidating our position.

Swati Pandey: Okay. So basically that is being kept on hold?

Bharat Sheth: No, that is a committed expansion. What I meant was in excess of the Billion odd Dollars which is committed. We are not planning to enhance that.

Swati Pandey: Do you have any funds raising plans via bond issue?

Bharat Sheth: You know we raise debt on a continuous basis. Sometimes we raise it through ECB, once in a while we take Rupees but predominantly it is driven on the ECB route as and when we get deliveries of our ships.

Swati Pandey: So are you doing anything now?

Bharat Sheth: We have just completed about few weeks ago. It is Rupee debenture. A 10 year bond which is at 9.8%.We raised 250 Crores in debt.

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

Bhavin Chedda: How has been the movement in the asset prices versus both dry bulk and tankers and any activity you have seen in last two to three months?

Bharat Sheth: It depends what your start date is, if you take the start date as say January 2009 on tankers it has been negative. And again depending on the asset class probably somewhere between 15% and 30% and on the dry bulk from January 2009 it has been positive probably by an equivalent number.

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

Rajat Chandak: Sir just to understand the offshore business, basically you said all but one are on the long-term rate?

Bharat Sheth: Correct, not long term, I mean it is on term charter not long term.

Rajat Chandak: Okay.

Bharat Sheth: As I said to one of the earlier participants some of them will come up for re-pricing but when the client redelivers that particular asset depends on the job.

Rajat Chandak: So, but usually how long is this term…

Bharat Sheth: It varies, it can be 90 days, it can be 180. I mean the real term contracts vary between two years and five years but many of these have option. There are very few contracts which normally run for full five years without option.

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

Sachin Karesa: My question was on the ton-mile demand, could you throw some light on that? How has that moved in the first six months both on dry bulk as well as on the tanker side?

Bharat Sheth: On the dry bulk side on certain commodities the ton-mile demand has improved, predominantly has improved on iron ore. As far as tanker is concerned the ton-mile demand has come down more to do with the fact that the absolute demand has come down. If you take the overall trading patterns they are pretty similar to where they were in 2008. You are still seeing crude oil move from Venezuela to China. You are still seeing crude oil move from Mexico to China. You are still seeing crude oil move from West Africa to China. This is all generating strong ton-mile demand. What is happening is that the volume of that business has corrected downwards pretty significantly.

Sachin Karesa: Do you have any figure to share with us in terms of what has been the ton mile demand in the first half of the calendar year CY2009?

Bharat Sheth: Yeah it has been negative.

Sachin Karesa: Both for dry bulk as well as tanker?

Bharat Sheth: No dry bulk has been positive and tankers which means both crude as well as petroleum that has been negative.

Sachin Karesa: Sir, we keep getting this data on the freight rate on a weekly basis, last week some of the tankers have actually been quoting negative number. So is that the scene so bad that it is even difficult to cover the OPEX cost and how are we placing that front because there are close to 50% of your vessels on the spot market?

Bharat Sheth: On those spot markets there will be certain times when the vessel is actually trading below operating cost, but it is not always the case because what happens typically in the way the tanker business works is you try and triangulate. So you carry a cargo from Port A to Port B and then you try and get a cargo from close to Port B. And if you are successful in triangulating those cargos then you can earn a little over and above the operating cost, but broadly speaking you are right that the crude as well a the petroleum freight rates today are operating at below operating cost.

Sachin Karesa: Assuming the current spot rates were to continue in the 2nd Quarter, would it be fair to assume that our rates also in the spot market for 2nd Quarter would be much slower than what you are earning in the June Quarter?

Bharat Sheth: Yes if you take the June Quarter they were not below operating cost.

Sachin Karesa: When you say 55% is covered it is with option or without option?

Bharat Sheth: That includes certain options which we believe we will get exercised.

Sachin Karesa: One question is regarding the cancellation that we have done recently, would it also be fair to assume that whatever the loss if any we have taken and if we were to look at the cost in terms of overall today going and buying a secondhand it would still work out to be much cheaper. So basically I am trying to think is in terms of company's strategy, take a little bit of loss on the new buildings and if and when we feel the market is going to go up, probably go and buy a secondhand which may also be much cheaper as compared to going for a new one.

Bharat Sheth: Clearly the new ones are at a premium to what one is to buy a modern secondhand boat today. So the new building prices where we had contracted were at a price that were significantly higher than what we could get equivalent today.

Sachin Karesa: Would you like the asset price to correct further, what is your outlook there or would you actually like to see more visibility on the rates before you would probably look at adding some more ships?

Bharat Sheth: I think we would clearly like to see more, nobody likes asset values to keep correcting like this because then it also upsets our own payments on banks loan etc, but clearly we would like to see a lot more visibility on where this market is headed.

Sachin Karesa: But how do you see the asset prices, you believe there could be because you have mentioned that the supply in the second half could be a little bit more than what we have seen in the first half net of scrapping. So is there a possibility that demand especially on the tanker side does not look to be anything great. So could we witness a further decline in asset values especially on the tanker side?

Bharat Sheth: I think we could.

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

Raj Gandhi: If you could breakup your NAV in terms of how much comes from offshore and how much from shipping?

Bharat Sheth: No, in the NAV we have just taken our investment in our subsidiary at cost.

Raj Gandhi: So what is that amount?

Bharat Sheth: We have invested about Rs1100 crs in the subsidiary.

Raj Gandhi: What I was seeing is that Chinese delivery is lagging by 40% to 50%, so in that sense the delivery concerns are still not shown in the market, it is just the demand side that has shown up till now.

Bharat Sheth: Clearly one is very disappointed particularly on the tankers, I think dry bulk rates has held better than what we could have expected, three or six months ago, but the tanker rates are very, very disappointing where they are at the moment. Particularly as I said some of the deliveries have got held back and there are also ships in storage. So that is a bit of surprise and a disappointment.

Raj Gandhi: We have seen GE Shipping acting very contra-cyclical which has helped in long terms.

Bharat Sheth: It is difficult to forecast, I mean we never forecast top of the cycles and we have never captured the bottom of the cycles, but what we want to do is to just consolidate because we have a fairly large committed expansions.

Raj Gandhi: So I guess , if you remove offshore which is pretty much secured in that sense going by the way how ONGC is tendering here also and shipping front as such we do not have that much of a CAPEX especially after the cancellation.

Bharat Sheth: If you take shipping in isolation, the committed capital expenditure is not that aggressive, but we would like some of the offshore assets to actually get the business. And if they settle down then we know that we have got a risk matrix in our own minds and we just continue evaluate it against that risk matrix. So as more and more of the offshore assets if they do get successfully committed for long durations, two or three years or five years as the case maybe then we may take a little more aggressive posture on the shipping front, but not until then.

Raj Gandhi: ONGC will be coming out with tenders for jackup rigs in coming years, so would we be keen on inchartering or trying to capture that business in jack-ups?

Bharat Sheth: Yes we will certainly look at it at as an opportunity to expand our drilling business.

Raj Gandhi: ONGC has chartered 3 deepwater rigs. For each deepwater rig you will require about 6 OSVs so that translates to about 18 to 20 OSVs required by ONGC compared to the 60 that it are operating now. So in that sense is it correct, you will almost see a 50% jump in ONGC's requirement?

Bharat Sheth: We think the ratio could be a little lower because people are now operating more efficiently. So it is also possible that the ratio could be 2:1 instead of three boats to one rig. But obviously if there are more rigs than the demand for OSVs will definitely increase.

Raj Gandhi: But again I guess these rigs are not operating in the same area. One is in the KG basin, one will be in Mahanadi, so I do not know whether they will be able to leverage it that way. 2 to 3 OSVs will be required for a jack-up and ultra deep will require even more. How do you see that?

Bharat Sheth: Deep water rigs operate in deep waters. The distance from the shore is large so we need larger boats. They are not the same kind of boats that are required for shallow waters..

Raj Gandhi: Have you ordered such deep water vessels?

Bharat Sheth: Yes we have. In fact, the next phase of our expansion is for the deeper waters.

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

Aishwarya Ramani: What is your CAPEX plan for the next two years?

Bharat Sheth: For GE Shipping we have no capex for the rest of this year and for FY2010 it is $135 mn. For GreatShip, we have $420 mn in FY10 and $225 mn for FY11.

Aishwarya Ramani: Also wanted to understand your outlook on the offshore segments?

Bharat Sheth: Well on the offshore segments, overall rates are softer than they were this time last year. I think a lot will hinge on where oil prices eventually settle down, but it is a general belief of people that if oil prices stabilize around the $70 mark then you could see a little more E&P activity taking place and people having larger budgets to spend on such E&P activities, but I think people are just waiting to for some level of medium term stability. Some people subscribe to this dreams shoot theory and there are equal number of people who do not. So I think it is a still a little uncertain.

Aishwarya Ramani: What is the average duration of charter contracts in your offshore segments?

Bharat Sheth: Its close to a year and half.

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

Rajesh Ravi: Sir this jack-up rig that is suppose to come in September/October, has this been contracted?

Bharat Sheth: Yes.

Rajesh Ravi: Could you give an approximate day rates that it is has been contracted for?

G. Shivakumar: We cannot give the day rates. It is been contracted for a period of five years .

Rajesh Ravi: What is the OPEX cost for rig, anchor handlers and PSVs that we have?

Bharat Sheth: Its about $4000 to $4500 a day for the vessels and about $30000 a day for rig.

Rajesh Ravi: Could you give the cash position levels?

G. Shivakumar: At end of June 2009, it was about Rs 2190 Crores for GE shipping & about Rs 269 crs in offshore business.

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

Nikhil Vora: If you assume the current asset pricing which are prevailing for a similar vessel type, what would be the overall CAPEX if we had done the same CAPEX today?

Bharat Sheth: I think about 10% lower than what it is.

Nikhil Vora: That is it, on current pricing also?

Bharat Sheth: Between offshore and shipping, because on the offshore side there has been very less correction. So we have to take an average

Nikhil Vora I would presume 70% of the CAPEX which is for offshore has been contracted out?

Bharat Sheth: No only the rig has been contracted.

Nikhil Vora: What would happen to the shippers itself when your EBITDA are not even being met. Would they get financial closer for the balance amount?

G. Shivakumar: The ships will be delivered to the owners and the owners will take delivery of the ships because they have paid a lot of money upfront, generally they will tend to take delivery of the ships. So the ships will join the world fleet. In some cases, the owners may not be in a position to take delivery but the yards will sell them to other owners. So finally it maybe that one particular owner defaults and does not take delivery, but some other owner would step in and buy it from the yard, because the yard does not want the ship sitting in the yard because they need to produce something else in place of that.

Nikhil Vora: What is the supply side looking like in terms of incremental tonnage over the next couple of years for both bulk and tank?

Bharat Sheth: It is on the tankers the outstanding order book is approximately 36% of existing fleet on a gross basis before any scrapping and on the dry bulk it is running about 65%.

Nikhil Vora: And would you in your own thought process think that broadly 60% to 70% of these incremental tonnages will get delivered?

Bharat Sheth: I suspect so, what is happening is you take countries like China and Korea, the governments are stepping in and providing the equivalent of a bailout package to the shipyard. And what they are doing is that they are setting up sort of the equivalent of a SPV and the ships therefore as they all import a lot of raw materials. So rather than allow the ships A) Not to get built at all because that will lead to a lot of unemployment at various shipyard B) Rather than allow the ship to get built and sold at a rock bottom price and for the yards then to take a big loss, the governments are stepping in with these SPVs and they are providing a finance package so that the SPV will hold the ships until prices stabilize or indeed go up.

Nikhil Vora: Has this been amongst the first occurrences for governments to step in or this is fairly normal in choppy times like we are looking at today?

Bharat Sheth: At least I am not aware of when this has happened previously.

Nikhil Vora: If one looks at the current supply dynamics where say a 50% to 60% incremental supply seems to be on the cards for the next three years and demand again as one can see it today it seems to be fairly muted, what can play the reversal out here? Obviously something which has right now factored in and it does not seem to be suggesting reversal but what could lead a reversal from the demand side of it?

Bharat Sheth: A) Well eventually I think you need a lot of scrapping in order to moderate the net supply position. B) you need demand to come back to at least a normalize levels. So at least if demand goes back to say the last five years average I think we will be in a position where the rates will be a lot more remunerated than they are today. I mean just the earning OPEX or below OPEX as we are currently earning on the tanker sides, cannot on a long term basis be sustainable.

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

Ms. Archana: We have cancelled one order recently for dry bulk. We had cancelled two more orders in January and we have been selling some of our older assets in the dry bulks segment over the last one year. As compared to last year and today, how much percentage of our tonnage has come down in the dry bulk segment?

Bharat Sheth: Let me put it in terms of capitals, we are now about somewhere between 15% of our capital is dry bulk and 85% is in tanker.

Ms. Archana: And what was it, let us say a year back?

Bharat Sheth: I would say about 20% to 22% in dry bulk for last year.

Ms. Archana: Going forward do we have more plans of cutting down on our dry bulk order books?

Bharat Sheth: Yes I think if we got another opportunity we would certainly consider both for tankers as well as dry bulk.

Ms. Archana: Sir have you sold your slot to some other company or you have just plain cancelled?

Bharat Sheth: As far as we are concerned it gets cancelled and maybe the yard has another buyer, we would not have access to that information.

Ms. Archana: Going forward in the next quarter how do the rates look like in dry bulk and tankers?

Bharat Sheth: For dry bulk the average earnings for the July-September quarters should be higher than April and June but tanker earnings for the July September quarter should be lower than April-June.

Ms. Archana: And in terms of revenues for the company how does the 2nd Quarter onwards look like for GE Shipping?

Bharat Sheth: You know beyond July/September we really do not know, because we have not really got a feel of, with the 45% to 46% at spot market as to where the re-pricing will happen and again because that is going to be dependent on various factors.

Ms. Archana: Sir in the last quarter you were saying that FY2010 would be a bad year for all shipping companies, do you still stick to that or the things look a different now?

Bharat Sheth: If you see some of the results that have been coming out of many companies globally depending on what businesses they have been in and where they have a larger exposure, many companies have declared significant losses on their quarter results running into 100s of millions of dollars and some have written profits, although in every case as you can imagine the profit has been much, much lower than the equivalent period of last year. So but how each company is positioned in terms of its re-pricing and what their capital plans are and how many ships they are coming, it is impossible to tell what will happen, but all in all the industry will definitely have much lower profit numbers going forward than they have had over the last few years.

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

Vinod Bansal: What kind of rates are now prevailing there on jack-ups?

Bharat Sheth: Somewhere between a $100000 and $120000 a day.

Vinod Bansal: If suppose one have to idle its rigs, what sort of cost would you incur for idling?

Bharat Sheth: It depends whether it is cold stack or a warm stack.

Vinod Bansal: You mentioned the NAV is including the cost of investment in the subsidiary, if I were to exclude the cost of investment and include the market value of the overseas business how much would the NAV go up?

G. Shivakumar: We do not calculate the market value of offshore assets as it is not a very liquid market and becomes difficult to value of those assets very often.

Moderator: We have a next question from Mr. Amrut from Economic Times.

Amrut Mathur: What was the time and spot ratio for Q1 FY10?

G. Shivakumar: It was about 55% from the spot and 45% from time chartered.

Amrut Mathur: You mentioned that you CAPEX in the shipping business is of Rs2141 crs and will result in an additional of 0.68 mn DWT. So I am just trying to understand over how many years will this be done.

Bharat Sheth: Over the next two years, up to second half of 2011.

Amrut Mathur: Are we expecting any pickup in the day rates going forward?

Bharat Sheth: We do not see anything happening immediately. We will need to see the price of oil. If the price of oil stabilizes and the economy starts growing and there is a little bit of confidence, then we will see the rates picking up, but we do not see that happening immediately.

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

Vinod Bansal: You said that the jack-up demand is coming from Gulf of Mexico, is it largely the gas filling rigs there in the Gulf of Mexico?

Bharat Sheth: Actually much shallower rig, its about 200 ft rig and those are the kind of rigs which cannot work in many other places across the world.

Vinod Bansal: In that sense Mexico market is delinked from the rest of the world?

Bharat Sheth: Yes it is more or less de linked from the rest of the world. Some of those rigs cannot work anywhere else, so they can only work there.

Vinod Bansal: Is that the reason why the Gulf of Mexico activity was down much larger compared to say European activity?

Bharat Sheth: Yes that is right.

Moderator: Next question is from the Mr. Sachin from Lucky Securities.

Sachin Kasera: My question is regarding the rig that we have inchartered. You mentioned that the OPEX is $30000 per day, so as per the charter agreement how are the cost there, do we pay the entire OPEX of $30000 or this is partly been borne by the owner also?

Bharat Sheth: Yes we have taken it on a bare board basis so the operating costs are completely on our account.

Sachin Kasera: Okay. And you mentioned regarding some of the offshore vessels coming off charter in the current year, considering the current scenario, you believe that it should be able to find charter for all of them?

Bharat Sheth: Yes we will.

Sachin Kasera: And the current rates are at par or are they lower at the rate at which they have been tied up, current rates?

Bharat Sheth: I would say that within a 10% band.

Sachin Kasera: You mentioned that the governments are trying to bail out the yards, so would it mean that it would probably delay the entire equilibrium that could have been achieved, in the sense the government were not to bail out scrapping and cancellation would have been much higher and therefore the process of getting the equilibrium in the market could have happened much faster?

Bharat Sheth: Absolutely, it would clearly delay the equilibrium process.

Sachin Kasera: I understand from your point when you mentioned that the yard does not actually want to have inventory being built up and that is why they would like to push for delivery, but typically at what stages in construction can you actually go and cancel it and what time can actually defer it. Are there sort of timelines say maybe six months before delivery or so on?

Bharat Sheth: According to the contract you cannot cancel it or defer it. You cannot cancel it any time, you can defer it at a cost. You cannot defer the delivery. You have to go as per the yard's schedule. So there is no provision in any contract to cancel it at any point in time.

Sachin Kasera: I was just reading last year's annual report, there is some Rs90 crs charge on account of some contract in one of the subsidiaries, on the shipping side. Could you just tell as to what exactly this provision is for, was there some contract or what exactly has happened, was is the cash charge in will it be reverse in the current year.

Bharat Sheth: It is a provision for some in-chartering contracts where we expected that there would be a possibly losing some money on those contracts and we had made a provision for those in the March results. Again that is based on the outlook as of that time, the outlook has not changed significantly since then. So it is possible that that number will be crystallized into our accounts over the next few quarters.

Sachin Kasera: If I get it right you were expecting the TCY rates to be lower than the rates at which we had in-chartered so that is in the provision for the same?

Bharat Sheth: Yes that is right.

Sachin Kasera: There is another Rs 40 crs provision regarding some investment in container shipping company, could you just brief on that?

Bharat Sheth: That is right, it was an investment which was made by one of our subsidiaries in a JV that they had in a container shipping company and where we have decided to mark that investment to market, because the container business has been going through a very bad patch. And this is the mark-to-market on that investment.

Moderator: We have a next question from Mr. Pinaki.

Pinaki Routray: In your earlier comments you mentioned that the offshore E&P activities will increase further in the coming years. Will your company look at the offshore business to expand rapidly?

Bharat Sheth: Yes it will.

Pinaki Routray: How do you see the markets for both in India as well as outside, in terms of hiring vessels and rigs?

Bharat Sheth: We have not seen too many tendering activities recently. There are a few tenders which are out in India, but activity seems to be little subdued over the last few months

Pinaki Routray: What about Northsea as well as west Africa where you see a lot of opportunities coming up?

Bharat Sheth: The North Sea market currently is very soft. The West African market is definitely better than what we are seeing in the North Sea, but there are certain security related issues there. The Brazilian market is much protected. It is a growing market but there is a huge protection for Brazilian flag vessels. So to access and penetrate that market is not particularly easy.

Pinaki Routray: Currently you have about five anchor handlers and three more are on order which includes two higher anchor handlers of about 150 T size. Will you place orders for higher bhp vessels?

Bharat Sheth: We started with 80 T and now from there we are moving to what we think is the next phase for us, but at some point it is possible as we gain in confidence on the markets as well as on operational issues pertaining to the larger anchor handlers that we may invest in that larger size.

Pinaki Routray: So do you think that the market for these high end vessels will open up in near future maybe in the couple of years in India?

Bharat Sheth: Yes, definitely,

Pinaki Routray: How do you see the dry bulk cargo market shaping up at least in India and China?

Bharat Sheth: We have large expectations from the power projects in India and are hopeful that between 2012 and 2013 lot of these power projects will reach sizeable status, which will help increase in the imports of coal in India. If China continues to surprise us by importing as much iron ore as it has then the scenario for the iron ore movement will also improve .

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

Mr. Paresh: Lots of tendering activities will be staring in Middle East. Are we prepared for that?

Bharat Sheth: We are prepared. We have already got two of our OSV running in the Middle East area. So if there is a demand from home we are certainly happy to do that business.

Mr. Paresh: **L**ately have you heard or have you received any tenders on anything for jack-up or maybe OSVs?

Bharat Sheth: No, we understand that there is more demand coming from places like Iran. And at the moment we do not have any rigs, both our rigs as you know, one is already working with ONGC and the other is committed. So we are not looking at specifically at the drilling business in Iran. We would be happy to look at any opportunity that comes our way, but we are not currently working anything specifically.

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

Mr. Bhavin: Does the NAV figure also capture the depreciation in the new building in the shipping side?

Bharat Sheth: Yes.

Mr. Bhavin: I was just slightly confused on the debt figures, if you can just repeat them for me, for the standalone and the consolidated?

Bharat Sheth: For GE Shipping it is Rs 2989 crs and for Greatship along with its subsidiaries is Rs 1547 crs.

Moderator: We have our next question from Ms. Soumaya from Morgan Stanley.

Ms. Soumaya: Would we see an increase in dry-docking charges and what is the schedule likely to be?

Bharat Sheth: No we would not see an increase in dry-docking charges. That is nothing to do with the state of the market. We did two dry-docking in Quarter 1, we are expecting to do three in Quarter 2, two in Quarter 3 and one is Quarter 4. That is the current schedule. So there will be eight dockings in the year.

Ms. Soumaya: How do you look at the product tanker rates moing forward?

Bharat Sheth: The product tanker rates are not good at all and a lot will depend on demand for various petroleum products, much more driven by western consumption patterns particularly the US consumer. US consumes almost $1/4^{th}$ of oil demands. So I think that is going to be very relevant. And hopefully if the demand comes to a little more normalized levels, we can see a quick improvement in earnings. I was mentioning to one of the earlier participants that we need just marginal changes in demand and you could certainly see a lot more confidence coming back into the freight structure?

Ms. Soumaya: Are you seeing any pickup in refineries and considering that so many of them have began and are likely to begin especially in Asia?

Bharat Sheth: In long term that is good because the new refineries that are coming up or coming up in places where the consumption is a little less relevant. And that means they will all lead to a lot more exports as and when demand picks up, but most important is demand needs to pick up. Once demands pick up then the fact that refineries are in Asia or South Asia and the demand is in the West in Europe and in the United States that is good for ton-mile.

Ms. Soumaya: So, for the next trigger level as such would what is that we should look at for the winter demand in the US or anything prior to that?

Bharat Sheth: We are getting into the Hurricane season. We have seen in the past there have been disruptions in trade patterns because of Hurricane, ships get held back and that has the tendency of removing certain ships from trading. The other things we need to closely monitor is the number of ships that are going into for storage purposes because that also helps the market in the sense that it removes some ship from competitive trading. And of course as we then get into the winter months a lot will depend on the demand for heating oil.

Moderator: Participants are request to please press * and 1 to ask any further questions. Probably there are no more questions on queue.

Anjali Kumar: Okay. Thank you very much for joining us and please allow us at least 48 working hours to put up the transcript of this call, Thank you.