# Great Eastern Shipping Ltd.
## Investors/Analysts Conference Call
## (October 19, 2007)

**Moderator:** Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to the GE Shipping earnings call on declaration of its unaudited provision financial results for the second quarter of financial year FY 2007-2008 ended on September 30, 2007. At this moment, all participants' are in a listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1. I now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communication at Great Eastern Shipping to start the proceedings. Over to you Ms. Kumar.

**Anjali:** Good afternoon ladies and gentlemen. On behalf of Great Eastern Shipping I welcome you all to the earnings call of our Q2 financial results. Today we have with us our Deputy Chairman and Managing Director Mr. Bharat Sheth and our Chief Financial Officer Mr. Balan Wasudeo. Mr. Wasudeo will give us a brief financial snapshot on the Q2 performance of the company and after which we will have a Q&A session. Mr. Wasudeo, over to you.

**Wasudeo:** Thank you Anjali. Good afternoon friends. I will quickly capture the highlights of this quarter's performance. it has been again a very satisfying quarter with growth in Net Profit of 45.6% from Rs. 235 Crores to Rs. 342 Crores. No doubt, a good amount of this is again due to the adoption of the revised AS11 definition like in Q1, but even if you remove the impact of that, the growth in Q2 profits have been 25% and for the half year it has been as high as 29%. This growth comes on the back of very strong dry bulk performance. Even though it constitutes around 25% of our business, the performance of this sector has broadly compensated the somewhat more modest performance of the tanker department. The other drivers have been increased capacity which was offset to some extent by higher repair cost.

Now, I will go through the specifics. The main component of the business is freight and charter hires and that shows a smart increase of 15% in the quarter and 30% in the half year. This is mostly due to one, increase of 15% in revenue days in the quarter. Revenue day has increase from 3744 days to 4303 days. The other small contribution to the topline growth is that in this quarter and also in this half year the percentage component of voyage days has been higher. It is as high as 43% as compared to the 38% of the preceeding quarter of this financial year. There has been a good contribution from gain on sale of ship, as you know we sold our single-hull VLCC towards the end of the quarter. Interest and dividend income is roughly at the same level as in previous year and quarter and previous year's half year.

'Others' is almost entirely the impact of the revised AS11 adoption and therefore overall the topline grew by 36% from Rs. 591 Crores to Rs. 806 Crores in the quarter and by 47% for the half year. Coming to expenditure, employee cost has shown a fairly substantial increase from Rs. 42 Crores to Rs. 57 Crores in the quarter and for the half year from Rs. 81 Crores to Rs. 110 Crores. Some of it is because of wage revisions and bonus payments in the second quarter, but a bulk of it is because of increase in the fleet as we you know every ship we add on to the water we have this compliment of crew and that has to be increased. To give you an idea of what I am saying, as on September 2006 we had 39 vessels in the water, today we have got about 48 vessels in the water. Repair and maintenance is more than double because there was a bunching of lay ups as per their statutory schedule that has happened in this quarter. Direct operating cost in the quarter has been flat, though there has been an increase in the half-year basis because in the first quarter there has been an increase in bunker cost as compared to the corresponding quarter of last year. Increase in incharter ships has been going up because you must have realized by now that we are adding to our operating capacity by inchartering vessels thereby leveraging our inhouse capabilities. Other expenses have been somewhat flat. Overall, the expenses grew by 26% in the quarter as compared to 42% in the half year. The EBITDA has again shown a smart increase of 44% for the q and 51% in the half year. The operating margin in this quarter has been somewhat to be lower at 46% as compared to 51%.

I would like to clarify one aspect that drives operating profit margin, besides of course the basic profitability of our tankers and the dry bulk operation. It is just that even in the basic charter to sail, 2 charters of the similar profitability, one is of voyage and the other is of time charter, the more the voyage number of charters the operating margin comes down. It is more an arithmetic issue rather than any reflection of the profitability of the company. So, as I said in the beginning the voyage base of 43% as compared to 38% in the last quarter and that has impacted sharply the OPM for the quarter. Interest cost is higher because we have been borrowing to finance the large additions to ships. Similarly depreciation increase is also for the same reason. Tax expenses have gone up sharply in this quarter because the gain on sale of ship comes under MAT profit unlike our shipping income and because of high gain on sale of ship in this quarter, they have come almost entirely under MAT and therefore there is a charge of Rs. 19 Crores of current tax expenses and that brings me to the last line of Net Profit number of Rs. 343 Crores as compared to Rs. 235 Crores of the quarter. Again, we maintained the ROE level at broadly same level at 36% compared to previous quarter's and similarly the rate on capital employed also at about 23 to 24% as compared to previous quarter. With that, I bring my presentation to a conclusion. Thank you for listening. Now our Deputy Chairman will take questions. Thank you.

**Moderator:** Ladies and gentlemen, 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. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have our first question from Mr. Akash Gopawar from Systematic Shares. Akash you may please go ahead.

**Akash:** Congratulations sir on a good set of number. I want to understand as Baltic Dry Index has increased 21% in last month and in second quarter also there was sharp increase in Baltic Dry Index and Baltic Supramax Index, so what is the impact on our performance going forward?

**Bharat:** Yeah, at the starting of the last quarter, the Baltic dry index was at about 6280 and at the end of the quarter it was about 9500 and currently is about 10,700.

**Akash:** 10700 plus.

**Bharat:** Right, so it has gone up. Now the impact for us was that if you see the average earnings of the dry bulk fleet, they have gone up, they have almost doubled in some cases they have more than doubled, in some cases they are up above 80% to 90%. On an average, I would say that the earnings have about doubled compared to the quarter of last year. So, to a large extend we have been able to take the benefit of the increase in the index. This is of course of ships, which are on the spot market.

**Akash:** Okay, and sir what about our costs , whether it is increasing on the same line or?

**Bharat:** No, the costs are not increasing anywhere close to what the revenues are increasing at, but as I have explained in previous conference calls that there are quarters where we have many more dry docks, which are one-time expenses, which are expenses which are incurred every two and a half to three years and therefore in certain quarters you can get distortions in expenses.

**Akash:** Okay and sir what is your view going forward for a second half, do you expect Baltic Dry Index to increase,

**Bharat:** All indications at the moment for the dry index remain very positive over the next couple of quarters.

**Moderator:** Thank you Mr. Gopawar. Next in line is Mr. Raghavendra Reddy from Kotak Securities. Raghavendra, please go ahead.

**Raghavendra:** Hello, can you please explain probably over the next 4 to 6 quarters how would you ramp up the offshore business in terms of fleet addition and in terms of CAPEX?

**Bharat:** Yeah, as you know we have about $600 million committed in the oil and gas business through our subsidiary. We have 3 vessels in the water currently and for the rest of this financial year, we are expecting 2 more, one is due in December and one is in March, just keep the March one out because really it is not going to have a full year impact at this lot and even the one in December, by the time it comes in the end of December it just quite may have a quarter's earnings. In 2008-2009, we have five vessels starting in July 2008 and then every 2 to 3 months we have asset coming through, running all the way to March 2009. In the financial year 2009-2010, we have again got assets coming all the way from April through till December 2009 and there is a possibility of something coming in say 2010 because you can sometimes get a few weeks' delay; yeah and we have the rig coming in September 2009. So, all told, I mean the entire committed capital expenditure will start sort of earning as it was or start giving you results in FY 2011.

**Raghavendra:** Would you also be planning to add any rigs to your off shore business in this time span and how would you finance this CAPEX going forward the $500 million CAPEX?

**Bharat:** The $600 million is currently fully financed. The Great Eastern as you know is committed to put in approximately $135 million in equities, the bulk of it is already infused I would say with the exception of may be $20 or $30 million, the rest of it is all financed. We have tied up the loan that is required for immediate acquisition. We have not yet tied up loans that are required for assets coming towards in the later half of 2008-2009 and as far as going beyond the $600 million is concerned, we are still looking at various proposals and the money will either come from Great Eastern putting in more capital into the business or we will look at other avenues.

**Raghavendra:** Yeah, and any rigs being acquired in this $600 million dollars?

**Bharat:** It includes 1 rig which is due for delivery between September and October 2009.

**Raghavendra:** And this rig, what cost is that rig?

**Bharat:** It is just a little over $160 odd million.

**Raghavendra:** And when do you think you would possibly get this rig chartered to one of the operators?

**Bharat:** We are in discussions with a few operators. Obviously at a price we could go out and fix it like yesterday, because there is clearly a demand for it, but obviously we want to be careful on how we price these assets and at what levels we want to fix it out at and as we see there is no hurry to go out and fix this rig because it is not as if we are currently foreseeing the demands for rig a sort of alter. We are seeing the demands for rigs will remain strong, I think you are all seeing what is happening on the oil price and E&P activity will remain strong, so there is no hurry to power in fact, but if we get what we would like to earn on the rigs, we would be happy to fix it tomorrow.

**Raghavendra:** And Great Ship would have debt equity of about 3:1?

**Bharat:** No at peak debt on the committed CAPEX the debt equity ratio will be around 2:1. It may be around 2.2- 2.3 kind of range, that is only an absolute peak because remember you will start paying off some of the debt in between.

**Raghavendra:** On tanker side , we have seen subdued tanker rates for some time though the oil has been going up, now it is at historic high , but the tanker rates are still lower, so what is the outlook on the tanker side?

**Bharat:** Well I think what has happened is, there are 2 or 3 factors that have probably culminated in where the market is where it is. I think the most important thing was, that OPEC cut production about 9 to 10 months ago and also they are now saying that they will at least add back another half a million barrels in November, we think it is going to be more like December before the oil really starts flowing into the market place. The second and important factor is that oil flipped into backwardation, sometime in June-July of this year and as a consequence of flipping into backwardation clearly there was a disincentive to hold inventories anywhere globally and so people started actually meeting the oil demand by using inventories as opposed to buying new quantities of oil, so there was much less global movement of oil in the last 3 to 4 months as compared to the previous few quarters or even the previous few years and of course all this culminated with newer ships coming into the market place. We think now that oil inventories have come to a point where if you take oil inventories in terms of forward cover as defined in days it is 54 days cover. 54 days cover is really at the bottom end of 5 year average, and it is now believed as OPEC will come under greater pressure may be to give in beyond this half a million barrels of oil and therefore you have the demand kicking in. You might get all kinds of weather-related delays, which tend to hold up ship from loading or discharging cargo, what we call port congestion and build up and suddenly you will find that the sentiment is very positive. Now that can happen, that is a possible scenario and we think that we are seeing the first signs of it happening over the last 3 or 4 days, but it is early days yet I cannot make a statement that it will certainly happen, but I think there is a high probability that the next few months we will see higher tanker earning.

**Raghavendra**: Yeah, just one last question on the long term outlook. There is going to be a lot of supply of new vessels right in 2008, 2009 and 2010, do you think that would cause rates to over the medium term to come down again?

**Bharat**: No, if you look at the forward curve both on the crude side as well as on the product side, the forward curve is in contango to where the markets are today and those people who are providing the freight cover on the forward curve obviously have the data in front of them. You know everybody knows the number of ship which is coming in 2008, 2009 and 2010, so I think people attracted that in, but you know there is demand and what we have seen is that just looking at headline supply demand is not necessarily providing you an answer as to how freight markets are going to behave and we have seen that in the past that I think we will almost certainly see that in the future, what is much more important is the tonne mile demand and where the oil comes from and where the oil is moving into. It is also going to be determined by geopolitical situation. It is going to be determined by weather-related disruption, refinery outages etc. Having said all this clearly there is a lot of supply of tonnage coming in 2009 and 2010. 2008 is not a particularly heavy year, but calendar 2009 and 2010 are heavier years. At the same time you must remember that there is a lot of scrapping that still needs to take place particularly on the single held ships that is one. The second important factor is that a lot of the tankers, the single hull ones; a number of them are now moving out of the trade and are getting converted into bulk carrier. So, I think if you take the long term that is clearly a positive for the tanker market. So, these were ships that would otherwise have at least run until 2010 and 2011 are moving away by 2008 and 2009 because that is the time it will take for the vessels to get converted and if you take the medium to long term, we are seeing a huge slow down in incremental tanker ordering because what happens is that those slots are now getting taken up by other active classes, it could be containers, it could be gas, it could be dry bulk etc., and therefore if I would a sort of flip it the other way to tell you that the spot market remains a little uncertain but I think it all augurs well for the medium to longer term on tankers.

**Moderator**: Thank you Mr. Reddy. Next in line is Mr. Nikhil Vohra from SSKI. Mr. Vohra please go ahead.

**Nikhil**: I wanted just one thing with freight markets which is reasonably solid right now, I guess asset pricing has also remained very stable, are we likely to look at this as the arbitrage opportunity for asset fleet itself where given the way the markets are may be it makes like more than to look at these arbitrage opportunities, to look at trading in future itself?

**Bharat**: Sorry, what is your last question?

**Nikhil**: To look at trading in our fleets itself even fleets may be at contracted rates for future deliveries. Is there a possibility to look at selling those right now?

**Bharat**: Well at this stage we have not taken any decision on that, I think the only think I can say is that where we are trying to encash is based on some of our single hull tankers where I think the values we are getting has probably gone up in spite of very poor tanker market and as I said earlier it is probably due to the fact that these ships are in demand for conversion into dry bulk. So that opportunity we have taken and as you know we have contracted to sell two single held Supramax tanker at prices higher than what we earlier believed we would get, in light of the soft tanker market. As far as dry bulk is concerned currently we are not looking actively at selling any of the assets in spite of all assets on an individual basis being at all time highs. We just think that market still has some way to run. We do not see any pressure on asset pricing either on tankers or on dry bulk, particularly on dry bulk and therefore there is the risk that you go and sell something modern and then you know you just left on cash and you may not be able to get in for some time. So that is one, but what we are doing with a view to what we think is a reasonable sense of strategy is we are buying at the back end of the curve, so we are buying in to backwardation and that is the reason why we recently contracted to what we call Kamsarmax bulk carriers. Now, okay these are for delivery in 2011 and one could argue that you know 2011 is three and a half years from now, but it is so much in backwardation compared to where I mean the kind of money we would have to pay today that we think we are better off buying into the future rather than buying now.

**Nikhil**: Given the way the rig market is right now and where we have say contracted or we get the contract of say $120 to $125 Million dollar or thereabout, if the economic benefit of that asset is available off hand will we be capitalizing on that or we will look at that as an operating asset? Just for example the rig that we are contracted for if there was an offer available at less volume more theoretically 30 to 35% higher price, would we be indulged to look at that as an opportunity or we would still look at that as an operating vessel and thereby not really look at selling that?

**Bharat**: No, we would not look at selling that as you know Nikhil we only have one rig at the moment and you know we want to build on the business. You know we can do that if we have for example a dozen rigs and then if we were to sell one that is different, but you know we want to build on the business and so whether it is a 20% or a 30% premium, because that only is reflecting the market, but if the market was at a 30% premium and somebody said here is a 100% premium and then obviously we would look at something that we believed was you know we above the economic value of the asset. I mean that is different, but if it is just going to be at market we clearly would not sell.

**Nikhil**: Okay. Sir just one number, which just the break up of the other income. Could you just elaborate that slightly?

**Bharat**: Yeah, well I think as you know as the CFO said the bulk of the other income has come through the AS11 accounting standards and the rest of it, some of it has just come from some insurance money that was due to us in the past and some of it has just come from actual realized assets gain on some of our revenues that we have probably sold on the dollar rupee.

**Nikhil**: So that would be included in the FOREX gains, right.

**Bharat**: Yeah, so it is basically insurance money of some past claims, you know every time insurance works with a time line, say every quarter we have a few Crores coming in here and there. And then of course we have this training institute where we make that is just like tiny sums of money Rs.1 Crore or Rs.2 Crores.

**Nikhil**: Okay, I will come back and thanks for this.

**Moderator**: Thank you Mr. Vohra. Next in queue is Mr. Rohit Singhania DSP ML. Mr. Singhania you may please proceed with your question.

**Rohit:** Sir, I would like to understand on the tanker side where you have contracted on a charter basis when is the renegotiation and repricing is going to happen for this contracts?

**Bharat**: It varies actually, for some of it happens some time in the end of Q4 FY 2008 and some of it will happen in FY 2009 and some will happen in FY 2010.

**Rohit:** Okay, currently in this the next six months there is nothing as you expected to happen. You are wholly fully contracted.

**Bharat**: We have fully contracted. We have no tankers that require repricing until March 2008.

**Rohit:** Okay could you give us latest NAV ?

**Bharat**: Yes it is about Rs. 492 a share as of September 30, 2007.

**Moderator:** Thank you Mr. Singhania. Next in queue is Mr. Madhukar Sheth an Individual investor. Mr. Seth please go ahead.

**Madhukar:** Can you give the break up of sales income from dry bulk and tankers separately.

**Bharat**: Yeah its about 33% is from dry bulk and 67% is from tankers on a net earnings basis that taking away all the direct operating expenses etc.

**Madhukar:** And the net profit is in what proportion?

**Bharat**: Yeah net profit, I would say is probably some where like 40% to 45% is dry bulk and rest is tankers and if you exclude the sale of the ship, right because the entire proceeds from the profit on sale has come from selling one tanker.

**Madhukar**: Okay and this tanker prices perhaps at $150000 or somewhere around that in the past?

**Bharat**: No that is for the VLCC.

**Madhukar**: And the current rates are hardly around anywhere between $10,000 and $20,000 a day?

**Bharat**: Yeah, but remember that the VLCC never averaged $150,000 a day, you might have got one voyage that might be 20 days, 30 days or 40 days. The highest average that we saw for the VLCC was in 2004, which was in the region of $70,000 a day, that average year to date I would say is probably somewhere in the low 40s.

**Madhukar**: Okay.

**Bharat**: Yeah, currently the spot market, you know the spot market could be business for 15 days; it could be for 30 days etc. That is in the region of $18,000 to $20,000 a day, but that does not make it an average. I would say the average would still be somewhere closer to $40,000 a day.

**Madhukar**: And second question was on offshore business. It is getting a PE of 20 and shipping business gets a PE of less than 10. Always on the ground that is a fixed income and assured income while shipping is a fluctuating income, but then fluctuation can be on both sides on the higher side also and in case of rate distend the fluctuation has always been on the higher side over last 49 rather 56 years history, so how do you see this tendency of the analyst to give higher PE to fixed deposit than to a good business.

**Bharat**: Well, I cannot answer that question. But I think the basic point you have raised is that is it better to have a business that just has a fixed income and therefore no ups or downs or are you better of you know having the volatility of the spot market, which then has in strong markets to make a lot more money and in weak markets you can loose a lot more and I think there is no clear answer on this.

**Madhukar**: No but having seen your 56 years history, you have always made more money than a fixed deposit.

**Bharat**: Yeah, I mean if you say if you take this year I mean not this year, if you take this decade over the seven years Great Eastern has I think done somewhere return on equity somewhere around 30% and I do not believe we would have achieved that had we you know run either extreme, either run everything on spot or run everything on period. So I think this policy that Great Eastern follows whereby it has somewhere between 40% to 50% fixed and then we play on the balance, I think it may look conservative in certain markets, I think if you take this particular quarter that we are now reporting on clearly our performance would have been much worse if all the tankers have been on the spot market.

**Bharat**: Yeah, I mean well I cannot comment you know let our offshore business settle down. It is early days to say how our offshore business will perform, but we are confident that we will follow, we think we will follow some pretty similar strategy in the offshore business as we have done in shipping and we hope that the offshore business also provides us returns on equity at these numbers, but you know remember this is not something that varies and has done over 56 years yeah. We have had more good years in this decade and bad years and a 35% to 36% return on equity is very healthy over a seven year.

**Madhukar**: Yes, I was only trying to compare some other offshore company with current Great Eastern Company at the PE ratio command.

**Bharat**: Again these are different , I mean I do not think I can comment on those competitors because I am not an expert on it, I can only tell you the kind of philosophy that we follow.

**Moderator**: Thank you. Next in line is Mr. Arun from Capital Market. Mr. Arun, please go ahead.

**Arun**: Could you please throw some light on the planned dry docking.

**Bharat**: Yes, you want to know for Q3.

**Arun**: Yeah, Q3 and Q4 separately.

**Bharat**: Let me just begin with the quarter that just got over, we had four lay ups and we have had 181 days for which the ship did not earn and we had a total expenditure of about Rs 42 Crores. As far as Q3 is concerned it is going to be three layups, we expect each of these layups will have an average duration of about 30 odd days and therefore about 90 odd days will be non revenue on the three laps and we have an expected expenditure of about Rs 25 Crores in Q3 about Rs 25 Crores, this is for Q3. Right and in Q4, we have three vessels, which we plan to lay up, one of them is heavier lay up and therefore I think we will have about 120 to 130 days of lay up time in Q4.

**Arun**: For 3, totally for three vessels 120.

**Bharat**: In number of days as I say. Yeah.

**Bharat**: And we will have a total cost of about I would say about Rs 25 to 30 Crores.

**Bharat:** So in other words the heaviest in terms of the amount of money that we have spent was in Q2, the quarter that has just got over.

**Moderator**: Thank you Mr. Arun. We have our next question from Mr. Bhavin Gandhi from BNK. Mr. Gandhi please go ahead.

**Bhavin**: Good evening sir. the NAV number, would this be only the shipping portfolio of the company or it includes offshore asset?

**Bhavin**: No it totally is the shipping portfolio of the company. And we have taken all our investments just basically at cost, so we have not revalued the investment.

**Bhavin**: Alright and sir we have about $620 Million in the offshore business that is the total CAPEX that we are looking at, could you give us the sense as to if we were to place these orders right now what would be the kind of CAPEX that one would be looking at?

**Bharat**: In other words, you want to know what is the premium.

**Bhavin**: Yeah.

**Bharat :** first of all you cannot necessarily repeat these orders because of the delivery slot. You know I think I was mentioning to one of the earlier participants that we have got for example both coming in December of 2007 and then in March of 2008. Now you know these slots cannot get repeated, so it is difficult to put a value to unless you got an actively market to sell these ships, which we are not doing at the moment because we are in the formative state of starting a business and we need a minimum presence in the businesses that we are trying to build so we have not really gone out on the limp to try and determine the value of these assets.

**Bhavin**: Okay. No problem sir. could you give us a sense as to beyond this what kind of number we are looking at beyond $620 Million that we are talking about here?

**Bharat**: We are still in the process of having internal discussions on this and at this stage, I might be able to throw a little more light at our next quarterly meeting.

**Bhavin**: Okay.

**Bhavin**: And sir what will be the CAPEX for the shipping business as we have lined up?

**Bharat**: Yeah, it is about what we have committed is $375 Million and that basically takes us through between now and 2011 I think.

**Bhavin**: And sir how much of this would be towards replacing single hull vessels?

**Bharat**: Actually we have none of this really towards replacing single hull because let me tell you we have got four product tankers, which are due for delivery between Q3 of FY 2009 and FY 2010 but these are large product tankers, so this is not a replacement. We have then got a modern dry bulk vessel, which delivers to us in fact next week on Monday morning and again that is not a replacement that is an addition to the fleet. And then we have got two dry bulk carriers, which are due for delivery in Q4 of FY 2011 and Q1 of FY 2012.

**Bharat**: So really none of this is towards replacing our single hull tankers.

**Bhavin**: Alright and just one more question sir. Sir you gave us the dry docking expenses numbers and the approximations and sir this would obviously not include the revenue loss that you would have because of that?

**Bharat**: No that would not include therefore I broke it up in the number of days as well as in the amount of money that we will spend.

**Bharat**: Yeah, but you are quite right as I mean you know the number of days particularly on the dry bulk vessels now is very painful.

**Bhavin**: Right. Thank you sir that is all from my side.

**Moderator**: Thank you Mr. Gandhi. Next in line is Mr. Anand Sharma from I Maritime. Mr. Sharma please go ahead.

**Anand:** My question is like on your offshore business like you have close to around 12 vessels or 11 to 12 vessels on orders. Have you enter into any of the forward contracts for them after delivery?

**Bharat**: We have at the moment 14 vessels on order. And we are marketing the one that is due for delivery in December of this year that is December 2007. That is the one we have started marketing and I think sometime in January, we will probably start marketing the one, which is due for delivery in March 2008. The ones coming thereafter we have not yet begun the process of marketing.

**Anand:** Okay and where do you plan to deploy them. Will it be only in India or you have options of deploying them elsewhere like?

**Bharat**: If you look at the kind of assets that we have built. we had the luxury of building assets with the latest in terms of customer requirement and capability and I would say that we would look at where we believe we will get paid the best money. So we really have in a sense a global canvas. We are not limiting our opportunities to any one geographical area.

**Anand:** Okay, so you are open to deploying these vessels on spot charters as we are also vis-à-vis deploying to Indian companies on long term?

**Bharat**: Yes, absolutely. We would, eventually, like in shipping, we would like to build a global customer base.

**Anand:** Okay. I have one more question like may be this is a bit off track. I have noticed like you have been ordering all these offshore vessels at variety of the yards like in Colombo, Aker, and now finally two ships you have ordered to Mazgaon dock, so like generally what we have seen like your earlier division also use to have for offshore results, like they had a relationship with Bharti Shipyard and orderings, do you have any advantage of ordering at various yards I may be in India or outside. Could you give me some price advantage or?

**Bharat**: When we look at building these vessels, any kind of vessels. We approach a number of yards. They could be in India and they could be outside of India. We then look at a combination of price and the delivery of the particular asset and on payment terms and then that is when we determine where we believe we should eventually place our bet on. So it is a combination of these three factors that will really eventually guide us. I mean we are happy to build you know anywhere people will give us a good price, good payment, and a good delivery slot.

**Anand:** And what has been the investment on these MSVs you have ordered to Mazgoan?

**Bharat**: Well let me tell you I think that was I know I read it myself in one of the news papers and I think that is it has not been correctly reported. We have not yet placed any orders for any MSVs at Mazgaon.

**Anand:** Okay, thank you very much.

**Moderator**: Thank you Mr. Sharma. We have our next question from Paresh Khandelwal from Birla SunLife Mutual Fund. Mr. Khandelwal please go ahead.

**Paresh**: Sir on this dry docking that are coming up in the next two quarters, how many of the six vessels are dry bulk vessels?

**Bharat**: Yeah, we have one vessel currently in dry dock and then for this quarter that is October – December, we have another three which have been programmed and then we have two tankers one which will probably be done a little earlier may be in October – November and then there is another one which will begin the work by the end of November.

**Paresh**: Sir this one would also be a tanker.

**Bharat**: Yeah, so two tankers and four dry bulk vessels.

**Bharat**: But not all of them will complete the work by December.

**Paresh**: Okay sir. Sir the other question that I had in my mind was that a lot of shipping companies are coming in offshore business like you have an order book of some 14 vessels similarly other companies in shipping line are also coming into this offshore vessel supply business. Now what is the kind of outlook that you have on the competition given the fact that some 40 to 45 vessels might actually come in Indian markets?

**Bharat**: Yeah. What I will have is you know we have our Chief Operating Officer for the oil and gas business and I will ask him to participate and may be he is the person who will make a line on this one, so let him answer that question.

**Sheshasayee**: Good afternoon.

**Sheshasayee**: Your question is about the competition we are going to face for the 14 vessels, which we have ordered. Right.

**Paresh**: Yeah sir.

**Sheshasayee:** We believe that there is enough space in the market for our vessels and for many more, both in India and in the markets globally. I just see the offshore market is growing rapidly, the investments are increasing in exploration and production and more assets of all classes are going to be required and thus competition is not something which is an issue right now. Today, the issue is more availability of vessel at the right time and the right place.

**Paresh**: But sir, some of our vessels are due to be delivered only in future. That is one year and one and a half and 2 years from now and at that point in time many other vessels might also come up. Thus the few of the explorations blocks and previous vessels might actually go off. So, that way do you not think once again the rates might just face some pressure?

**Sheshasayee**: Okay let us just take a look at some of the facts which are available in the published domain. One is that close to 50% of all the vessels working in offshore are greater than 25 years of age. A certain proportion of them and we believe quite a large proportion of them are due to be and are likely to scrap in the coming 2 or 3 years. The second is that the technology required in the offshore domain is changing continuously and old vessels do not have the ability to cope with the new requirements, which are coming up from new fields and you block the new development. The third is that the requirement itself is changing; about 20 years ago in the Indian offshore 60-ton vessels were considered state of the art. Today we are talking about 200 tons vessels and 220-ton vessels being required. So, all these aspects actually will contribute to new state-of-the-art vessels like the ones we are building to be in great demand, not just today, but in the years to come.

**Paresh**: So, most of our vessels are more than 60 ton DWT rather?

**Sheshasayee**: The anchor handlers we are building range in the 7000 plus bhp and the PSVs we are building are in the 3000 plus bhp and there are multipurpose platform supply vessels which are in the 4500 DWT range.

**Paresh**: Sir,. So, what is the kind of payback period that you are expecting and what are the rates that you are kind of expecting for different categories of vessels?

**Bharat**: The payback period is impossible to determine today.

**Paresh:** No, I mean you must have done some analysis.

**Bharat**: No, I will tell you. I will give you a broad sense, the way we looked at it is as, when we took these decisions to get into the business and investment, we believed that this business has every possibility of providing somewhere between 20% and 25% return on equity in over the long term. Now you will get years where you will do a little better and you will get years where you will not do as well, but broadly what the philosophy we will follow is something similar to shipping.

**Bharat**: And yet I was telling one of the earlier participants that over seven years we have done somewhere around 30% return on equity. Now, that has been possible because of mixture of selling certain assets, it is a mixture of trading vessels on the spot market, and it is a mixture of trading vessels on the period by fixing ships in the long term and I think the philosophy that we will follow in the oil and gas business is something similar and obviously we would all be very happy if they too could start earning these kind of returns in equity, but at the time of investment our broad benchmark is somewhere between a 20% and a 25% return on equity.

**Moderator**: Thank you Mr. Khandelwal. Next in line is Mr. Nikhil Vohra from SSKI.

**Nikhil**: Bharat just one thing is it possible to visualize the scenario in the near term where just as more shipping companies globally are getting valued significantly higher to any values. You would also try to possibly get our company listed offshore?

**Bharat**: At this moment we have no plans to list the company anywhere other than Mumbai, yes at the moment shipping companies are getting traded at premiums to net asset value, but these things are all a function of markets eventually, of equity market.

**Nikhil**: Just coming from that, it has always been a global free trade business for us and most of the global assets have been historically on a more perennial basis got valued closer to the realizable book and we have always traded at nearly closer to 50% discount to realizable book historically.

**Bharat**: But I mean now if you see the discount has clearly narrowed I think we have just we said that for the quarter ended September 2007 our net asset value of Rs. 492 and therefore the discount is now significantly narrowed to net asset value and who knows as people look closer and closer into the business these things can either narrow or widen.

**Nikhil**: Okay. Thank you Bharat.

**Moderator**: Thank you Mr. Vohra. Next in line is Mr. Anand Raj from Pink Research. Mr. Raj please go ahead.

**Anand**: Good evening sir and congratulations on a good set of numbers.

**Bharat**: Thank you.

**Anand**: You said that the CAPEX for the shipping business is about $375 million, which will continue till 2011. I would like to know how much of would be from leverage and how much of this would be from your internal accruals, and what would be the estimated debt equity ratio of the shipping business?

**Bharat**: I would say broadly 30% of it will come from internal accrual and 70% will be from leverage. Our current net leverage if you take it as our net gearing what they call is probably somewhere in the region of 22% to 25% and that might go up to may be a net gearing of may be somewhere between 25% to 30% depending on how we do between now and 2011, but we are very comfortable at the moment on the leverage. This gearing is net of cash.

**Moderator**: Thank you. Next in line is Mr. Swanand Kelkar from Morgan Stanley. Mr. Kelkar please go ahead.

**Swanand**: Good evening sir, my question was regarding the scrapping, which has happened in the tanker segment year till date and if I remember right of the total about 370 million DWT of tanker world fleet about 96 was single hull, are those numbers right?

**Bharat**: Yes that is right, to say the world tanker fleet is about 380 million.

**Swanand**: Sir, I wanted to know what was the scrapping, which has you think happened in this calendar year and you mentioned that some of the tankers has now gotten shifted to bulk, where the ships are getting converted into ore carriers or something?

**Bharat**: Yes, I got the numbers. I do not have the exact number in scrapping, but as I speak to you, I will get for you. Let me answer the second question because that number I do have.
**Swanand**: Yeah.

**Bharat**: About 37 VLCCs have been committed to get converted from tankers into dry bulk. Now some of these will move out of service in 2007 itself, some of it will get move out in 2008 because as you can appreciate yards are completely full.

**Swanand**: Yeah absolutely and what do you think is the conversion time from the time the ship gets into the yard for conversion?

**Bharat**: Somewhere between 6 to 8 months.

**Swanand**: 6 to 8 months is the conversion time.

**Bharat**: That is why I mentioned to one of the earlier participants, I am not sure if you were there or not, that these all does augur well for the long term because that 37 VLCCs that is committed to move out of the business over the next 12 months.. The amount of tonnage that has got scrapped in this year is 2.7 million ton YTD.

**Swanand**: That is negligible, right?

**Bharat**: Yes it is very negligible, because remember that even though tanker rates have been very soft in the last quarter, they produce your cash profit right, unless somebody really needed to scrap, why would you scrap.

**Swanand**: Okay, but in terms of understanding this in the backdrop of the IMO requirement that by 2010 the 96 million DWT of tonnage has to be out of the system, that does not look to be on track then, right?

**Bharat:** Well I do not think all of it needs to be out of the system because I think what happens is in 2010 is that many members of the IMO, I mean the flag state control, what they call different jurisdictions do have flexibility on certain classes of assets to give permission to continue trading. So, therefore some of the ships will I think get into what I would call domestic trade. Because what is likely to happen is that there will be a problem when it comes to trading internationally as some of these assets cannot go to the loading area. So, you might be able to come and discharge your cargo into a country that is still friendly towards single hull and then of course you will also have ships, which are going into conversions not only for bulk carriers, but also for some of these storage projects.

**Swanand**: So, you mean the offshore strategic storages.

**Bharat**: Yes that right.

**Swanand**: Okay.

**Bharat**: So, some of the conversion is also happening there and some of it is happening here, but I think the broad point you are raising is yes there is going to be a sudden deluge of vessels that need to be scrapped.

**Swanand**: Right.

**Bharat**: At some point in time.

**Swanand**: Yeah, if we assume that a 2010 dead line will be met in a way.

**Bharat**: Yeah, but even if you just take, even if, let us say, 50% of it has to made, there is still a lot of things that needs to move out.

**Swanand**: Absolutely, great, thank you a lot sir. That is all from my side.

**Bharat:** Thank you.

**Moderator**: Thank you Mr. Kelkar. We have our next question from Mr. Shiladitya Dasgupta from ICICI prudential. You may please proceed with your question.

**Dasgupta**: Good evening everybody. Sir I just wanted to get a sense on the offshore business, one of the participants in the previous asked about this competitive scenario. My understanding is globally supply is growing at 8% and in India the supply is growing at 30%. Against this background what could be the possible growth in demand?

**Bharat:** Are you talking about the supply of boats or rigs?

**Dasgupta**: Boats.

**Bharat:** I will again hand it over to Sheshasayee who is here who is running the oil and gas business and he will answer that question.

**Sheshasayee**: Let us just address India first. Out of the 90 plus vessels, which are there in the Indian offshore, between 30 and 35 are from outside India. Those vessels themselves represent a huge market for Indian vessels. Given the current cabotage law it will be easy for Indian owners with Indian flag vessels to be able to replace foreign flag vessels.

**Dasgupta**: Okay.

**Sheshasayee:** That is just taking India. In addition to this, the Indian envisaged requirements here by 2010 we expect to need about 120 vessels, so that is another 30 vessels, which the Indian offshore requires. So, you will appreciate that at whatever rate supply is growing, demand is quite considerable.

**Dasgupta**: Okay.

**Sheshasayee**: Globally again there are 2 or 3 issues which have come up, one is that there are many new oil fields opened up in countries which were previously not in the offshore business and there are specific requirements in those areas, I mean you could look at the far east, You can look at West Africa, now South Africa and East Africa; you could look at the growing requirement in the Mediterranean. In all these areas there are more and more vessels being asked for. The types of vessels are not necessarily the same that is existing in other markets still the demand is growing both in terms of size and in terms of quality. So, as I said before I believe that the next at least foreseeable future, it promises to be promising.

**Dasgupta**: One of the thing is historically supply of vessels or boats had grown at about 2% per annum, going over the next 2 to 3 years, it is going to be 8% plus. In that scenario do you envisage that there will be some kind of pricing pressure for operator?

**Sheshasayee**: Okay. So, you are absolutely right and we have to look at what the past meant in terms of demand. Between 1985 and 2002, investment in exploration and production in general and investment and exploration and production in offshore were stagnant. So, there was not necessarily a requirement for more vessels or more advanced vessels. Since 2002 investment in E&P especially in offshore has been growing at between 9% and 13%.

**Dasgupta**: Right.

**Sheshasayee**: And these are extremely large sums.

**Dasgupta**: Absolutely.

**Sheshasayee**: As this investment is growing, this investment needs to be supported by various assets, both drilling and supply assets and that is why there is an increasing need for offshore vessels and for rigs.

**Dasgupta**: Right sir, thank you so much. Secondly coming to the NAV if the investments in offshore have been valued at cost, I think value at the current market evaluation what would be the NAV of the company?

**Bharat**: We have not really done a detailed revaluation of the investments in the oil and gas business.

**Dasgupta**: Right.

**Bharat**: All I can tell you is that yes it has obviously gone up in value, but since we were not really actively looking at any opportunities to trade in any of the asset classes, in a sense we have really not a done a detailed exercise on that.

**Dasgupta**: Right sir, thank you.

**Bharat**: So, what is reflected is basically these investment at cost.

**Dasgupta**: Right sir, thank you so much.

**Moderator:** Thank you Mr. Dasgupta. We move on to our next question from Mr. Anand Sharma from I Maritime. Mr. Sharma please go ahead.

**Anand**: I just wanted to know what is the breakup of these 14 vessels on order book like by their type, PSV, MSV, and anchor handling type?

**Bharat**: Yeah we have at the moment the three vessels that we have in the water, all three are PSVs. We then have some anchor handlers I mentioned to you earlier, I think that is a boat coming in December and then one in March.

**Anand**: Okay.

**Bharat**: They are basically anchor handlers.

**Anand**: Okay.

**Bharat**: We then have some PSVs coming to us in the middle of 2008, then some anchor handlers and then again some PSVs. So, if you take the overall total, we will have 8 anchor handlers and 6 PSVs.

**Moderator**: Thank you. We have our next question from Mr. Bhavin Gandhi from BNK Securities. Mr. Gandhi, please go ahead.

**Bhavin**: Sir if you could share with us your thoughts on the drilling side particularly in the shallow water markets and do you think there is some amount of concern of oversupply in the jack up market?

**Bharat**: Bhavin again I will request Sheshashayee to take that question.

**Sheshasayee**: You must be reading about the number of rigs about 68 rigs, shallow water jack-up rigs coming out from yards in the next 2-1/2 years.

**Bhavin**: Yes that is right.

**Sheshasayee**: And you probably are not reading very much about what is happening in the shallow water drilling market, because most of the new finds are being seen more in the deep water side. Having said that the shallow water market is extremely large and one of the big requirement in the shallow water market will be the need for rigs or work over drilling which is wells which were drilled in the past and abandoned t at those times when the oil price did not justify more investment in that particular reservoir being reactivated to take out whatever oil is available there and whatever it is possible to take out, which is far more financially lucrative at these oil prices.

**Bhavin**: Alright.

**Sheshasayee**: The other thing is that there has been an improvement in the technology available on drilling rigs and today you are able to improve the efficiency of oil production.

**Bhavin**: Okay.

**Sheshasayee**: So there are many wells which were abandoned at a time where you got about 20% of the oil which was what the technology at that time could support, but today you can go up to 30 to 35% and then you can take a rig back into the same well and obtain some more oil from the same well which previously was seemed to be done with.

**Bhavin**: Okay.

**Sheshasayee**: So there will be a substantial demand for such and other similar activities in shallow water field.

**Bhavin**: Okay and sir can you share with us what I kind of charter rates are we seeing in terms of long tenure contracts for the jack-up rigs as compared to the shorter duration contracts to say 1 or 2 year contracts.

**Bharat**: I think we have seen the ones that have recently just been announced. I think last week or 2 weeks ago we saw a 3-year deal, which is for a rig which is delivering in the third quarter of 2008 being done somewhere in the region of a $150,000 a day and earlier than that we saw a 5-year transaction take place for a rig that was to deliver in the first quarter of 2009 at a $140,000. I presume these have been done fairly recently both these transactions and this must reflect where the market is.

**Bhavin**: Okay. Thank you very much.

**Moderator**: Thank you Mr. Gandhi. We have our next question from Mr. Sameer from Reliance Mutual Fund. Mr. Sameer, please go ahead.

**Sameer:** I wanted to know what are your views on the opportunities in the dredging market and are we looking at that business?

**Bharat**: We have not actually looked at dredging market at the moment and therefore I am not able to comment on it.

**Sameer**: Okay thank you.

**Moderator**: Thank you Mr. Sameer. Participants who wish to ask any further questions may please * and 1. Please press * and 1 to ask a question. As there are no more questions I would now like to hand over the call to Ms. Anjali Kumar, over to you madam.

**Anjali**: Thank you. Ladies and gentlemen this concludes today's earnings call. Thank you for your participation. The transcript of this call will be uploaded on our website for your future reference. We shall, however, be glad to answer all your questions that you may have, which could not be dealt with today due to the scarcity of time. Do send us an email on the same and we shall be glad respond. Thank you once again.

**Moderator**: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using TATA Indicom conferencing services. You may please disconnect your lines now. Thank you and have a great evening.