The Great Eastern Shipping Company Limited
Investors/Earnings Conference Call
(July 30, 2007)

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

Anjali Kumar: Good afternoon, Ladies and Gentlemen. On behalf of Great Eastern Shipping, I welcome you all to the earnings call and Q1 financial results. We have with us today our Deputy Chairman and Managing Director, Mr. B K Sheth and our Chief Financial Officer Mr. Balan Wasudeo. Mr. Wasudeo would give us a brief financial snap shot on the Q1 performance of the company after which we shall have a Q&A session. Over to you Mr. Wasudeo.

Balan Wasudeo: Thank you Anjali. Good afternoon friends. It is my pleasure to welcome you all again to this afternoon presentation of the company's results for the period ended June 30, 2007. I think in this quarter as you are aware many people in the corporate world had an issue of the Accounting Standard of AS (11) becoming mandatory because the government's circular of December 2006. Our company too have had our share of issue concerning this because as you know the shipping companies rely mostly on foreign currency borrowings for acquiring vessels and hence the impact on shipping companies is particularly extreme. So, you would have seen in our accounts that we had a net impact of about Rs.103 crores in this quarter. But, we would like you to understand that in spite of this, I mean even if you exclude this one time on benefit of the accounting standard change, the quarter had been extremely satisfying from the operating point of view and the bottom line has increased by as much as 31% if you exclude the impact of AS (11). This has come mostly come on the back of very good earnings in both tanker and dry bulk as you would have seen in the note circulated by Anjali. Particularly, in the dry bulk side there has been an increase of 84% in the TCY.

I will as my normal practice run you through the line by line analysis: There has been a very healthy increase in the very first line freight & charter hire at about 47%, which is one of the largest growth in any quarter reported by us so far. There are many reasons for this, the noteworthy reasons; one is a 17% increase in total revenue days of the company, secondly the increase has come partly on the back increase in tonnage of our owned vessels from 2.87 million DWT to 3.22 million DWT. There has also been a very sharp increase in the operating capacity on account of inchartered vessels. This company has been focusing on improving operating capacity by taking in vessels from other owners and this quarter sees a good result of that. The other reason is the increase of the voyage charter days, which has led to higher increase in top line as compared to time chartered days. The percentage composition of voyage charter day increased from 32% in the quarter-ended 2006 to 38% in the present reported quarter and lastly of course the 84% in dry bulk TCY, helped to boost to the top line.

The gain on ships has been practically the same level at Rs.79 Crores vs Rs.71 Crores. Not much difference in other earnings from interest and dividends. Of course, the other income includes the AS (11) impact of Rs.115 crores as given in the note, other than this it has been practically at the same level and thereby the total income has gone up by about 59% especially because of increase in the operating days and inchartered ships.

Coming to expenses, staff cost is showing increase of 34% because of larger number of vessels and also some wage revision. There's been a marginal decrease in repair and maintenance because of lower dry docking cost, though the number of dry docks, i.e. the ships which went to the dry docks are the same. Other operating costs are higher because of increase in bunker cost coming at the back of higher crude oil prices. Item number 2(d), the new item we are putting from this quarter to highlight the new increasing activity of in-chartered capacity and that shows an increase from Rs.15 Crores to Rs.100 Crores, an Rs.85 Crores increase. There is a corresponding increase in the top line too on account of that. Other expenses are broadly around the same level. As a result, the operating profit grew by 57% and if you exclude the impact of gain on sale of ships it had growth of 74%, but ultimately being what it is the increase in the top line on account of in-chartered vessels has brought down the OPM from 54% to 49%, because in-chartered vessels do not give the same level of gross margins as your own vessels for obvious reasons. Though mind you, the profit on in-chartered vessels though lower comes on practically no increase in capital employed, and therefore as a result the return on capital employed improves because of in-charter. Interest cost grew from Rs.27 Crores to Rs.31 Crores because expansion of the last 10 months brought with it some increase in loans and therefore some increase in the interest cost. Depreciation has gone up mostly because of the 12 Crores consequential impact of the AS (11) impact which has been brought out in the notes. Thereby the profit before tax increased from Rs.248 Crores to Rs.430 Crores with a 73% increase. Not much change in the taxation level, especially tonnage tax and tax on other income and therefore the profit after tax increase from Rs.241 Crores to Rs.421 Crores a increase of 75%. The return on capital employed has been inching up and has gone up from 25% to 26% in this quarter. Thank you gentleman, with this I handover the mike to Anjali.

Anjali Kumar: Ladies and gentlemen. We now commence the Q&A session which we request you to kindly restrict to the Q1 financial results only.

Moderator: Ladies and gentlemen, if you have any questions please press * and 1 on your push button phone and await to ask the questions 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. Parag Gupta from Morgan Stanley. Mr. Gupta you may please go ahead.

Parag Gupta: Hello, good afternoon everyone. Just a couple of questions. Firstly can you give us a broad outlook on what is happening in the tanker and dry bulk market. And also with weakening in the tanker rates, I just wanted to understand why that is not reflected in asset prices as yet. And the second question would be if you can disclose what would be the NAV at the moment and it would be great if you can just split that up into the various segments.

B K Sheth: Yes hi. Your first question was, the status on, the spot rates in tankers and bulkers. For tankers just at the moment, the spot rates are particularly weak and we got a completely different story on the dry bulk, where the spot rates are particularly strong, but let me just put in a caveat which is that sentiment in our business shifts very very quickly. And it will not take too many weeks for either of the sentiments to turn. So, there is a large element of sentiment that is currently driving both the businesses. As far as asset values are concerned it is our belief that tanker asset value continues to remain strong in spite of earnings, for two reasons, one that people believe that fundamentally the situation in the market is finely balanced between supply and demand and that any geopolitical supply chain disruption could very quickly add to tanker earning. It is also probably driven by the fact that the shipyards, that take orders for tankers are full until 2010 and in some cases 2011 and therefore if you really need to expand or replace whichever be the case, you have to go to the few owners who own the ship. And there is a general reluctance to sell vessels which are modern and which are double-hulled in nature. As far as the dry bulk vessels are concerned, it is more supported by very strong earnings both in the spot market as well as you take the forward curve. Your third question was on net asset value and it is a shade above Rs.450 a share. The break up, I will request our CFO to send it to you subsequently, but broadly speaking the bulk of it is obviously fleet valuation, which have moved up pretty smartly between March 2007 and June 2007.

Parag Gupta: Great, thank you.

Moderator: Thank you Mr. Gupta. Participants who wish to ask any further questions may please press * and 1. We have our next question from Mr. Anish Desai from ABN AMBRO. Mr. Desai you may please proceed.

Anish Desai: Sir, congrats on good set of numbers operationally. What were the vessels that were inchartered and how many of these vessels have been inchartered.

B K Sheth: We had if you take quarter one of the last financial year a total of 3,700 days of which 105 were inchartered in Bombay and for this quarter we have a total of 4,327 days of which 349 days have been inchartered.

Anish Desai: Right. So, if you could tell us which are the assets that are being inchartered and this is for Great Eastern Shipping India, not the Middle East subsidiary.

B K Sheth: No this is excluding Sharjah, we will consolidate probably from next quarter. The numbers that I have just shared are the ones of the Great Eastern Bombay.

Anish Desai: The other question is, in the fourth quarter you have mentioned that dry docking cost in FY 2008 is likely to go up. I think this quarter again there have been fewer assets that had gone in for dry dock. Would you give me the number of days. And two is what is your view going forward for the next three quarters on dry docking.

B K Sheth: Yes, for this quarter we have had 77 layoff days reflecting in three ships that were dry docked. Coincidently, it is a similar number compared to Q1 of last year where also we spent on dry docking a total of 77 days. Our heaviest dry dock period is likely to be Q2. We think it will be something like 130 or 140 days of layoff and you know; the cost we will have to obviously see once the vessels actually under take repairs. We do not have any exact fix on the cost, but that will be the highest quarter for this financial year in terms of cost.

Anish Desai: Then two very minor questions, one is you had mentioned that you know the foreign exchange impact because of the AS (11) is 115 Crores and the press release also shows others as 126 Crores, so what is the differential there.

B K Sheth: Well I mean you know, what we have done is we have distinguished between AS (11), because that is really a non-realized gain. As far as others are concerned these are all realized gains mostly on account of FX transactions.

Anish Desai: So others then it includes note 1, it is not all of note 1.

B K Sheth: See, what we have done in the results we have actually put it as an extra item. And we made our reference to note 1.

Anish Desai: Okay. If you could just go through how the depreciation has increased because of this AS (11), if you could clarify that.

B K Sheth: "What happens is earlier we would have capitalized the effects of changes in foreign exchange rates in respect of foreign currency loans to the block and as a consequence there would have been a variance in the depreciation charge. Now that you are taking such exchange to the P&L accounts, obviously there is nothing to capitalize. Rupee having appreciated by approximately 9% there is an exchange gain in revaluation of loans. Normally, this exchange gain would have reduced the Block and consequently reduced the depreciation charge. Since there is no reduction in Block due to exchange gain, the corresponding depreciation charge has increased."

Anish Desai: Okay, thanks.

Moderator: Thank you Mr. Desai. We move on to our next question from Mr. Kapil Yadav from Dolat capital. Mr. Yadav you may please proceed.

Kapil Yadav: Hello, good evening sir.

B K Sheth: Good evening.

Kapil Yadav: Sir, I just wanted to know the break up within tanker segment and dry bulk segment, how much is the charter and the how much is freight.

B K Sheth: Between.

Kapil Yadav: Tanker and dry bulk segment, within tanker segment how much is the charter hire and how much is from freight. And in dry bulk segment how much is the charter and freight.

B K Sheth: You mean the difference between the spot and the voyage?

Kapil Yadav: Yeah, yeah.

B K Sheth: As far as the number of days is concerned, we had about 38% of the total revenue days of the quarter while operating in the spot market as compared to 32% in the quarter one of last year. So, we have consciously taken a decision to trade more vessels in the spot market. And it is principally driven by the backwardation in certain cases, between the spot market and the period market

Kapil Yadav: Okay thank you.

Moderator: Thank you Mr. Yadav. We move on to our next participant Mr. Kenin Jain from Voyager. Mr. Jain you may please go ahead with your question.

Jain: Good evening sir. I just wanted to understand something with respect to the lead time which is there in the world market for the dry bulk carrier. Can you throw some light with regard to that given on order in next two months when is the likely delivery expected for the dry bulk carriers.

B K Sheth: Most likely in 2011. It depends of course where you want to go out and place the order, in I think some of the bigger yards in Japan it could even be 2012.

Jain: Secondly, I also understand that the rupee appreciated it would be denting our earnings because the spot revenues which we earn are mostly from the Asian markets. So what would be the quantum on the dent on those earnings because of the rupee appreciation?

B K Sheth: I think we had mentioned the last time around, but we will repeat it basically that every one-rupee variance, it has got an impact of approximately Rs.14 crores to the P&L on an annualized basis.

Jain: Rs.14 crores to the bottom line.

B K Sheth: Rs.14 crores to the bottom-line, yes.

Jain: Okay sir, with respect to the tanker and dry bulk could you give some light for the next 2 to three quarter how the trend, you are envisaging whether the rates would move in which direction, some sense on the global market, how the trade is taking place.

B K Sheth: Well as far as the tanker is concerned as I said earlier you know it is particularly weak now. We think that this could well be at the bottom and we remain hopeful that rates will pick up as we go into the winter months. And we believe that there is a compelling case that OPEC would might need to increase production with crude oil standing now at $76 a barrel. And as you know on a larger ship there is a very positive correlation between the increase of OPEC supply and the direction of freight rates, but we continue to remain very positive for the next three quarter.

Jain: Sir just last question from our side. Can you just tell us something about your off-shore plans in going forward? Are you looking for any kind of a strategic advancement in your off-shore business and if yes what kind of timeframe.

B K Sheth: Well, as you know in our off-shore business so far we have a total commitment of about $500 million and this is predominantly in new building assets. And therefore the bulk of these assets deliver between the end of this financial year through to FY10. Now as far as Great Eastern is concerned, till date it has invested about Rs.350 odd crores in the subsidiary and we expect that while it would be, EPS accretive from this year itself, I think the investment will come into full maturity probably in the next 12 to 18 months.

Jain: And to my question of further major investments and some strategic investment in this company.

B K Sheth: It will depend. It will be a function of the kind of funding requirements as we go forward, based on this $500 million Great Eastern has been happy to support the growth of the subsidiary. We will now await to see what are the phase II expansion plan. And if we do we need capital we will look at various opportunities.

Jain: And this $500 million will be assume debt-equity of 80:20, am I right?

B K Sheth: Yes, well because some of the new building assets, it will be 20:80 but we have got three boats, which are second hand and which are currently in the waters and there we may leverage less aggressively.

Jain: And what typical return on investment, you know one should look forward from your off-shore business?

B K Sheth: As far as return on invested capital is concerned we are hoping that we will be able to produce a return of between 20% to 30%.

Jain: On total capital employed.

B K Sheth: No on the share of the equity.

Jain: No I am saying on total capital employed.

B K Sheth: That will just be a function of how you leverage the transaction, but if you just take on leverage basis it might be in the region of 15% to 16%.

Jain: So, then equity it will be much higher, you know, if you look at on unleveraged capital, if you are looking at about 18% or so

B K Sheth: It just depends on how much you leverage on every transactions. I mean at the moment for example, based on what we have already trading in the water, just on two assets currently the equity is running at around 40% return on equity, but I am just giving you an average over the next few years.

Jain: When you say these kind of numbers, what assumption you take in terms of the pricing of the proposed CAPEX, or you know CAPEX right now we have, what kind of pricing assumption which undergoes compared to the current levels.

B K Sheth: Well, we basically take what we believe are achievable numbers, if you were to fix some of these assets for longest periods of time that is between three years and 5 years. Obviously if you run the vessels on the spot market there is a lot more volatility and obviously together with the volatility will come little more uncertainty. So the numbers that we have factored in are what we believe, the assets could earn if they were fixed for between 3 to 5 years.

Jain: Those rates will be say about 20 to 30% lower than the actually ongoing rates.

B K Sheth: I do not have exact numbers, because you know it again varies depending on where you trade in which region and who the customers are etc. because it also has impact on operating cost, whether you trade in the North Sea or whether you trade in India or in the Middle East etc etc. So what I am trying to tell you is what we think will be sustainable return on equity.

Jain: Yes, fine.

Jain: Sir, one basic question. As we see on the one side there is acute shortage of the rigs and the rates are flying. But on the other hand some operators in Indian off shore have locked in asset with the ONGC at a very meager rate of say $1,40,000. And on the other side you are talking of ambitious plans. So what rate one should look at on going forward. Is this trend changing the norm in the industry or this is just an exceptional transaction.

B K Sheth: No I think each person will have a different business philosophy. Some people might prefer the security of the cash flow and therefore it might want to fix forward for a period of 5 years. There will be certain class of management that want to take the risks of the markets and might go for shorter duration business. As far as ONGC was concerned I do not think that option was available to most of the bidders because it was for a firm period of 5 years.

Jain: As I understand presumably we are getting a 750ft canter lever from the Singapore from the **Keppel Yard** right?

B K Sheth: Not 750ft, it is 350ft.

Jain: And ideally that kind of rigs should what rate it should command, suppose we are ready to deploy it in next three months.

B K Sheth: Well it again depends on the duration of the business. I think if you want to think probably for a period of one year, you could get between $220,000 and $230,000 a day. Obviously, we have just seen what the numbers are that ONGC has given for a 5 year period. Then it just vary somewhere in between whether it is for 2 years, 3 years, 4 years etc.

Jain: When we are expecting this to be delivered to us.

B K Sheth: We are expecting delivery of this in quarter three or quarter four of calendar 2009, of FY10. You know it would be somewhere between September and October.

Jain: Just one last and basic question, given an option, a person who wants to invest in Shipping Industry at this point of time, whether he would be prudent in investing in dry bulk carrier or an off-shore fleet, according to you.

B K Sheth: Well I think, it is very difficult to say, because each businesses have both there pluses and minus. And I mean clearly those who have the benefit of dry bulk assets are seeing exceptional return and exceptional cash flow, how sustainable all this is you know, as you know 90% of the incremental demand has been driven by China.

And who knows if China for any reasons sneezes in terms of their demand intake for raw materials you know, some of this could come off. I do not think, you know it is fair to say that, is A a better investment than B.

Jain: Okay sir one last thing today, how much portion of our revenue comes from dry bulk as a broad percentage.

B K Sheth: Somewhere between 20% to 25%.

Jain: Fine sir. Thank a lot for the all your answers.

B K Sheth Thank you.

Moderator: Thank you Mr. Jain. We move on to our next question from Mr. Himanshu from Hans Berger. Mr. Himanshu please go ahead.

Himanshu: Good afternoon sir. I had a couple of questions, one of which is already answered on the timeline of your CAPEX and whether everything is coming on schedule. The second was if you could give us some light on what kind of spot rates you are currently realizing on your dry bulk and tankers.

B K Sheth: You know, it is a function of various asset classes but to put it in perspective, let us say if you take tanker first, VLCC today on the spot market will earn somewhere between $20,000 to $25,000 a day. And if you then go on to the Suezmax it would be about similar. Again depends on the geographical trade, if you then go down on the Aframax, it will probably be again somewhere in the low 20's and if we go below the product tankers it will some where in the high teens but again you know even at the expense of repeating myself these things can change very quickly. On dry bulk, the capes are clearly leading the charge and if one had a modern cape size bulk carrier today if you could earn in excess of $100,000 a day. On Panamax it is probably it at an average of about 55 to 60K , on the Supramax it is between 40 to 45K and on the Handy it is between 20 to 30K.

Himanshu: So, the other part of your new ships that are coming out in the near future do you see any kind of major delays because I mean that lot of shipyards that you have booked with are already over booked.

B K Sheth: We do not expect any delays in the yards where we have placed orders. There are some yards that have significantly delayed deliveries and Great Eastern took a very conscious approach you know 2 or 3 years ago in anticipation that there could be delays. Therefore, we were very discerning in determining in which yard we went to, replace the new building orders.

Himanshu: Thanks a lot sir.

Moderator: Thank you Mr. Himanshu. Ladies and gentleman for any further questions you are requested to press * and 1. We have our next question from Shilajit Dasgupta from ICICI Prudential. Mr. Dasgupta, you may please go ahead with your question.

Dasgupta: Good afternoon everyone. Sir just wanted to get the sense on total CAPEX lined up on the shipping front.

B K Sheth: A little over on $470 million.

Dasgupta: Again coming to the dry bulk part of the business what has been driving this very strong demand environment, is it purely commodities or even the soft commodities, there is a lot of strength.

B K Sheth: I would say clearly that there seems to be a global demand for raw materials whether it is iron ore or whether it is steam coal or even coking coal. Even as far as top commodities like grain is concerned, as you know many of the individual grain prices are now trading at pretty close to lifetime high. And there is a general demand that there is obviously global prosperity there is demand for various kinds of food grains. In addition, I would say that there is infrastructural problem in many of the loading terminals as well as in certain discharging terminals. And as a consequence there is heavy, what we called berth congestion. And that effectively is keeping a certain percentage of the global fleet out of active service. So, there is a tremendous pressure on occasions when a particular cargo has got to be lifted or has to be transported and there are few ships. And then of course the owner has significant upper hand to more or less charge as he pleases.

Dasgupta: Right sir. Thank you so much.

Moderator: Thank you Mr. Dasgupta. We move our next question from Mr. K Ramachandran from BNP Paribas. Mr. Ramachandran, you may please go ahead.

K. Ramachandran: The company has in-chartered a big way during this quarter. Will you continue with this scale of in-chartering going forward. And secondly what kind of vessels were in-chartered whether its of tankers or bulk carriers.

B K Sheth: We have done a combination of both tankers as well as bulk carriers. And on the question of whether we will continue to build-up on in-chartered, each deal is examined basis what we perceive as the risk on the particular transaction and the possible reward. And clearly at the moment it is becoming difficult to in-chartered vessels on an incremental basis because everybody's expectations are up and we see a lot more risk on in-chartering tonnage today. So, just at the moment, I think we will probably be content with what we have on our book, but again this is a dynamic position if we see opportunities or if we change our perception of the forward curve on either tankers or dry bulk we will obviously, we are there to build on this business.

Ramachandran: What is the average period for which you have in-chartered these ships.

B K Sheth: On a consolidated group basis, in dry bulk it is little over two years and in tankers I would say probably just a shade below 2 years.

Ramachandran: Thank you very much.

Moderator: Thank you Mr. Ramachandran. We have our next question from Mr. Vinod from Tantallon Capital. Mr. Vinod please go ahead.

Vinod: Yes I have two questions, the first question is your longterm plan to enter into other categories of shipping.

B K Sheth: At this stage, we do not have any long-term plan or any plan in fact to really enter into container shipping directly. I think our will focus continuous to remain on modernizing and expanding the tanker and the dry bulk fleet, but as I said earlier to one of the other question that you know we are doing it on a very, very selective basis because of the current pricing issue.

Vinod: In that case would you increase the share of the dry bulk compared to the tanker.

B K Sheth: Even in dry bulk the pricing is what we think is clearly at all time high. And we would like to be cautious in whatever we buy. What we are trying to do is not to buy on a pure speculative basis, but currently we are only expanding with a view to modernize the fleet, so we are trying to sell some of our older units and maybe that bit of money and then invest in modern unit. Also on an incremental basis, we would prefer now to fund our acquisitions basis almost a 40% to 50% equity contribution.

Vinod: And for your off-shore business are you looking for a partner like Great offshore did recently.

B K Sheth: Well, at the moment we are not looking at any particular partner. We have funded the current expansion plan of Greatship India Ltd through equity contribution of Great Eastern Shipping, but depending on their demand for resources going forward we will look at all opportunities.

Vinod: Okay, thanks.

Moderator: Thank you Mr. Vinod. Participants are requested to speak a bit louder while asking a question. We have a question from Mr. Kenneth Jain from Voyager. Mr. Jain please go ahead.

Jain: Just one question once again. The inchartering which was 349 days in Q1, whether that was just for Q1 or there is some term arrangement for next two, three quarters also. Just wanted to understand this in-chartering process ranges from quarter-to-quarter or at least some visibility is built-in in that.

B K Sheth: No, I would say that because we are taking ship in on charter for previous one year and beyond. There is some stability, but the 349 days which we have given to you is for quarter 1. I expect it will broadly remain intact for this financial year. Some of the incremental chartering as you know we are doing through our fully owned subsidiary as well. But as far as Bombay is concerned, I expect this number to broadly remain intact. But as you know this is a dynamic process because we might have charted ships a year ago and then some have to be given back now. And we may not immediately be able to find a replacement ship. So, there will be periods when you will get this variance in the number of in-chartered days.

Jain: Sir, just in the past question when we were discussing on the tanker rates, somehow you give the feelers maybe the rates have bottomed out. So what are the evidence, which make you say that perhaps the rates are bottomed out. Is it the rising crude prices, is it the world, I mean oil consumption growth from the IEA or is it and something solid evidence from your front that the tanker rates are slightly bottoming out.

B K Sheth: Well, I think its two or three factors that determine our current belief. One is that we are seeing crude inventories in United States, the last few weeks data shows crude inventory falling. There is a ramp up in oil refining utilization in the United States been driven by the demands of gasoline etc. Also we think we that have not seen for almost four weeks what we call arbitrage cargo moving from the West to the East, which significantly adds to ton mile demands. And eventually somewhere along the line that inventory is building up. So, there is no reason for us to believe that the volume of the business for any reason will come down. It's a matter of timing when it happens. The third of course is that we now typically enter the season where there is potentially a lot of disruption due to hurricane etc, weather related. And there might be times when ships get caught up in some of these ports that lead to additional congestion very similar to what we have seen in dry bulk. And of course we think that the winter demand this year could be strong. And finally we believe that OPEC will in all probability increase the production. They have taken a lot of production off the market for I think now almost 7 or 9 months. And at $76 of barrel there is indications of course I mean you know, these are just what we believe could happen, but we don't see why OPEC would not now at $76 of barrel of oil want to increase production.

Jain: Sir, also if you look at the operating profit number, I believe the EBITDA margins have fallen by 400 to 500 basis point.

B K Sheth: If you compare apple for apply they probably has not really fallen. What has happened is that, this year for, I said right at the very beginning, we have taken certain ships on in-charter, just to fulfill some contract obligations that we have got with our customers. Now those ships are really since they are really to fulfill an obligation; they do not necessarily give us any profit. So what happens is you take in a ship at $100 and you give it out at $100. So, it just tends to play around on the numerator and the denominator. And that reduces the margin, but if you just take an apple for apple, that is just knockout these kind of aberration, I would say our operating margins is broadly inline with what has been with of course the covenant that you know there has been a rupee appreciation which has negatively impacted quarter one in terms of operating profit.

Jain: Fine sir, thanks a lot.

Moderator: Thank you Mr. Jain. Participants who wish to ask any further questions may please press * and 1 now. We have our next question from Mr. Lokesh Garg from Kotak Securities. Mr. Garg you may please go ahead.

Lokesh Garg: Good afternoon sir. A very small clarification this other income that you have booked related to Forex fluctuations of net affect of 115 Crores. I just wanted to ask you what is the tax implication of this, do you pay current taxes on this income or it is not so.

B K Sheth: There will be no tax because this is notional and basically all our business comes under tonnage tax. So there will be clearly not be any tax.

Lokesh Garg: Okay thanks a lot sir.

Moderator: Thank you Mr. Garg. We have our next question from Mr. Vinod from Tantallon Capital. Mr. Vinod you may please go ahead.

Vinod: Can you please clarify the status on the single hulls phase out deadline & your views on some countries like Singapore giving extensions.

B K Sheth: I think the jury is out on that at the moment, because administrations globally do not need to address this issue until 2010. My suspicion is that it will be eventually a function of the then freight rate. If the freight rate markets are extremely tight I suspect that certain administrations may permit trading of single-hull vessels, but they may put some kind of age caveat. That is they may even say that we may allow a single-hull tankers so long as it not above 15 year or 20 years, for example, but today to sit in judgment of what could happen in 2010, I think it is a difficult question to answer with any precision.

Vinod: So, what is your view on supply and demand, I guess you have two scenarios where one your single-hull has phased out and one where the single-hull is not phased out, how does it look like.

B K Sheth: If every single-hull vessel is phased out, then we will have a very, very tight market in 2010.

Vinod: If none of them are phased out.

B K Sheth: I think the probability of that happening is almost zero and I will give you my reason why it is because as more double-hulls comes into the market place customers will have a lot more optionality and therefore, you might administratively be permitted to trade a single-hull tanker, but in practice we may not get any business. And the utilization rates will fall dramatically for single-hull tankers and therefore even though and administration is willing to accept single-hull tankers it may not be economical for the ship owner to face that kind of idling period.

Vinod: What about the double-bottom that you mentioned in the last time.

B K Sheth: No, what we really said is that there are some ships which have double sides. And if you have any one bit double that is, either a double bottom or double side, then you can trade the vessel almost until 2015. So, for example, in Great Eastern, one of its Suezmax tankers is what we call single double, we have a double bottom and therefore a ship like that could trade in 2015.

Vinod: Thank you.

Moderator: Thank you Mr. Vinod. We move on to our next question from Ms. Mansi Agarwal from Quantum. Ms. Agarwal you may please go ahead.

Mansi Agarwal: Good afternoon. My question is what is the investment in the shipping business to replace your single-hull fleet.

B K Sheth: We have already got $470 odd million in the pipeline and that will obviously go along, because that entire investment is in double-hull tankers.

Mansi Agarwal: On total basis, will it be $470 mn only in the long future.

B K Sheth: $470 mn is today basis what we have committed. Some of the assets we take delivery of in September or 2007, some assets that we are take delivery in early September there are two in end September and then there are some in FY 08 and FY 09, I mean in FY09.

Mansi Agarwal: All right thank you.

Moderator: Thank you Ms. Agarwal. Our next question comes from Mr. K Ramachandran from BNP Paribas. Mr. Ramachandran please go ahead.

Ramachandran: Just a follow up question. What is the composition of the fleet in terms of single-hull and double-hull particularly tankers.

B K Sheth: About 58% at the moment is in double-hull including new building orders. And by 2010 of course it will depend on how much of the remaining single-hull vessels we scrap or sell. We believe that we will be moving in a direction where we go to close to a 100% double-hull.

Ramachandran: Okay, thank you.

Moderator: Thank you Mr. Ramachandran. Ladies and gentleman for any further questions you may please press star and one. We have our next question from Mr. Bhavin Gandhi from B&K Securities

Bhavin Gandhi: Good evening sir. Congratulations on the good set of numbers. Sir, I just wanted to find if there is a strengthening in say dry bulk market right now, what would be a lag after which it translates into earnings for your company.

B K Sheth: I think you know we have some vessels which we had fixed in the earlier part of last year, which came off from what today looks like poor rates in Q3 and Q4 of this financial year. I think I am going on memory there are at least three ships and then as you know we were taking delivery of one modern Supramax bulk carrier again sometime in end October. So we should have may be four such ships where we would benefit if these current spot rates remain.

Bhavin Gandhi: Thank you sir.

Moderator: Thank you Mr. Gandhi. For any further questions participants are requested to please press * and 1. Please press * and 1 to ask for question. As there are no more questions I would now like to handover the conference to Ms. Anjali Kumar. Please go ahead ma'am.

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