Transcript of the conference call held on September 1, 2005, to discuss the details on restructuring of the Company's business.

Moderator: Good evening ladies and gentlemen, welcome to the Great Eastern Shipping's conference call. We have with us Mr. Bharat Sheth, Deputy Chairman & Managing Director of the Company, to provide clarity on the recent announcement of restructuring the company's businesses. The first question is from Mr. Anish Desai of ABN Amro. Mr. Desai, please go ahead.

Anish: Good evening Sir! Could you give us some guidance on the numbers of the offshore business in terms of EBIDTA and the earnings and PAT posted in the fiscal year '05 as well as for the first quarter?

Bharat Sheth: In FY-05 the topline of offshore was approximately Rs. 350 crores and on the net basis it was about Rs.96 crores. And for Q1 of this year the topline of offshore was approximately Rs 72 crores and on the net income basis after tax it was about Rs.18 crores.

Anish: Could you walk us through the procedure that is likely to be followed till the two companies get listed?

Bharat Sheth: I have with me Mr. Naware, the President (Corporate), and I will request him to take you through the procedure.

Naware: A board meeting is scheduled to be held in 3-4 weeks, which will formally approve the demerger scheme (swap ratio etc.). The scheme will then be submitted to the stock exchanges as per the listing guidelines. Thereafter an application to the Honourable High Court will be made seeking directions to allow us to hold meetings of shareholders, secured creditors as well unsecured creditors.
Thereafter, the chairman of the meeting has to file a report with the Honourable High Court and after hearing to all counter parties in this matter and after due deliberations the Honourable High court will sanction the scheme. As per precedent and practice this will require certain approvals from some contractual parties as well.

Post this we have to file the scheme with the High Court's order with the Registrar of Companies, after that the business officially stand demerged into two separate Companies effective April 1, 2005. The whole process could take anywhere between 6-8 months.

Anish: Okay, are we able to put a timeline for each of these particular milestones?

Bharat Sheth: We have got an approximate timeline given to us by our advisors Kotak Investment Bank. This timeline to a very large extent, depends on external factors like the High court giving us hearing on appointed date & there not being any major issues raised by anybody, the whole process is expected to be completed by March 31, 2006.

Anish: Would this procedure entail delisting of both the entities for a short period of time?

Naware: Between the times that the shares are to be listed of the new company and there is a reduction of capital, I think it is possible that there may be a week or so, when probably there will be suspension of listing of shares. But we will try to minimize the time to the extent possible.

Moderator: We have our next question coming from Mr. Hemant Patel of Enam Securities.

Hemant: On the balance sheet side, what would be the debt and cash, which would be apportioned to the offshore division?

Bharat Sheth: We are waiting for the valuation report to complete to get a clear picture. We think it will take a couple of weeks. I think in the next 2-3 or maximum 3 weeks all this will be out.

Hemant: Just one final question in terms of the offshore division. Are there any plans to actually scale-up the servicing business or even get into exploration activities?

Bharat Sheth: As mentioned the whole demerger process will take something like 6-8 months effective April 1, 2005. Since April 1, 2005, we have already taken delivery of 2 OSVs and we have another 6 more OSVs in the pipeline, which will be delivered to us between now and August 2006. As far as expanding the businesses is concerned, we will not allow businesses to slow down in any direction whilst the demerger process is on.

Moderator: We move on to our next participants, Mr. Sachin Kasera of Pioneer Intermediaries.

Sachin : My question is regarding the profit figure of Rs. 96 crores that you mentioned for offshore. I believe this is the figure for the stand-alone because I believe that going by consolidated numbers there will be a difference in the offshore’s profit. On Consolidated basis the figure was slightly higher.

Bharat Sheth: Yes, the offshore profit for Rs. 96 crores is on a Stand-alone basis.

Balan: There are marginal subsidiaries of offshore division, and consolidation should not make much of a difference.

Sachin: Because sir if I m right the segmental PBIT was close to around Rs. 146 crores on a consolidated level for offshore business?

Balan: Yeah, after all you have to remove interest and taxation. Also, the rig and marine construction income is not subject to tonnage tax. So if you take that, last year the offshore stand-alone had a tax liability of approximately Rs. 19-20 crores. Then the interest was about Rs. 20 crores.

The profit before tax last year was Rs. 120 crores, on this we had a tax of about Rs. 20 crores and then there was some prior period items, so that brought net income down to Rs. 96 crores.

Sachin: Secondly, in terms of the rationale for demerger, is value unlocking the primary reason or is it also something to do in terms of business restructuring?

Bharat Sheth: Well, I think it is a combination of both, because if we did not believe prima facie that demerger could unlock value then one would not have gone further. But as it so happens other than unlocking value even within the business restructuring we believe that if there is greater managerial focus and specialization achieved in each of the two businesses, I think there is every possibility that both the businesses would grow faster stand-alone than on a consolidated basis.

Traditionally shipping companies globally have leveraged up to one-time their networth. Offshore companies can typically go for aggressive leverage because of the longer-term duration of the contract. I mean you will find offshore companies even leveraging upto twice or three times. So as long as the offshore division remained a part of Great Eastern, clearly the total resources that were available was governed by the Great Eastern Shipping Company debt/equity ratio, which was more governed by the shipping business. Stand-alone may be they can determine more aggressive leverage approach, which is generally accepted internationally, and we think that will permit the offshore business to grow faster.

Moderator: We have our next participant Mr. Deepak Jain from Anagram Stock Broking.

Deepak: What is the outlook on the ownership structure between the two companies? And also in a scenario if the two companies want to do business with each other, so how the conflicts of interests are looked at?

Bharat Sheth: The ownership structure of that company would basically be a mirror image of the ownership structure in this company.

Regarding businesses being intertwined between the two companies, if Great Eastern remains focused shipping company and if the new company remains a focused oil field service provider, we don’t see the need for the two companies to really want to use each other’s ships or supply boats etc. They are completely different lines of businesses. But clearly if there was a need for either of the two companies to use the assets of the other company I am sure there will be no problem with that.

Moderator: We have our next question coming from Mr. Gautam Trivedi of Goldman Sachs, HK.

Gautam: I was looking at GE Shipping in particular with respect to its discount to NAV and I was comparing that with some other tanker companies in Asia. And I found that they are all trading at significant premiums to NAV. Would you estimate the NAV of your company?

Bharat Sheth: As of 30th June 2005, the NAV of the company was about Rs.282 a share.

Moderator: We have our next question coming from Mr. Vikram Suryavanshi of Karvy Stock Broking.

Vikram: Good evening Sir, I want to know the break-up of your divisions revenue for this quarter mainly in terms of how much is from rigs, OSVs and barge?

Bharat Sheth: I will give you the average because I would not suggest taking it only for this quarter because in the first quarter as you know one of our rigs had to undergo a significant refurbishment. But at an average the rigs contribute about 20% of the topline. The OSVs do about 40-45% of topline. The Harbour tugs contribute 10% to the topline, and the marine construction business does the residual, which is another 20-25%.

Vikram: The rigs are too old, so how long still they can be operational?

Bharat Sheth: As you know, we have just undertaken a major refurbishment program for one of the two rigs i.e. the Kedarnath, which is now coming to completion at the end of this month. This refurbishment we took after a gap of almost 25 years. So in our judgment there are no reasons to believe why these rigs cannot run for another 15-20 years.

Moderator: We have our next participant Ms. Manjubhashini of Sundaram Mutual Fund.

Manjubhashini: I wanted to know if you enjoy the tonnage tax benefit for the OSVs and rigs?

Bharat Sheth: Yes we do for OSVs but not for rigs.

Moderator: We have our next question coming from Ms. Shilpa Krishnan of Kotak Securities.

Shilpa: I just want to know whether this demerger will involve a lot of synergies from the point of view of the customer base because here I understand that your customers are oil companies either upstream or downstream. So will there be any loss of synergies?

Bharat Sheth: There will be no loss of synergies. With the exception of ONGC through their downstream company, which is MRPL, we do not have any common customer base. We don’t see any reason why we will not be able to continue to do business with MRPL.

Moderator: We have our next participant Mr.Harigeet Menon from SBI Life Insurance.

Menon: Could you just repeat the NAV figure that you said, the per share of the your company?

Bharat Sheth: The NAV at the end of June 2005 was Rs.282 a share.

Menon: And if the value of offshore fleet is removed, then what will be NAV for the shipping fleet only?

Bharat Sheth: About Rs.45-50 less i.e. around Rs 230 per share.

Menon: Going forward, next year you would just be a shipping company. Do you think that shipping being inherently a cyclical industry that risk profile for you would increase going forward, considering the fact that offshore was a much more steady part of your business so far?

Bharat Sheth: If you look at the Company overall, the offshore business contributes somewhere between 15-18% of the topline. Out of this, the offshore itself had an open exposure of about 40-50%. So, really the fixed income contribution was coming at somewhere like 8-9% of the topline. This 8-9% is not a very high number in perspective of shipping business base. We could easily recreate the position by just fixing up few more ships on charter.

Moderator: We have our next question coming from Ms. Nandita Parkar of Karma Capital.

Parkar: Now that you will have spare cash for a while and you do feel about the infrastructure opportunities in ports etc. in India. I was wondering if you are thinking about other opportunities outside of shipping?

Bharat Sheth: It is not really spare cash. We have kept aside cash for what we believe will be needed to fund better investment opportunities in the next 12 months.

Talking about investment in infrastructure projects at this stage while we do not have anything crystalized. What we do have is few people looking at possibilities where we could get into some kind of supply chain value enhancement, more so on the dry bulk side, not so much on the tanker side.

Parkar: Okay, in the logistic side?

Bharat Sheth: Well, that will involve logistics. When I talk about the value chain enhancement; it is really to do with logistics as compared to anything else, because we have the support of the freight. So we are just looking more on the up-stream, down-stream, but on the dry bulk side, not on the tanker side.

Parkar: Okay, and you have I believe, a non-compete for a year but after that going forward you could go into the offshore business as well.

Bharat Sheth: First, let me clarify on this non-compete part. These are details, which still have to be worked out. The whole purpose of demerging the oil field services business is really to create two very focused entities. So, it is not our current intention to plan the rebuilding of that.

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

Inamdar: My question is regarding the NAV of Rs.280. Can I have the figure as of March quarter and how the NAV increases through fleet addition or is to appreciation of the assets?

Bharat Sheth: As of March 2005, it was about Rs.280 a share. Almost the same number coincidentally that we got for June 2005. And the reason is that some of the modern assets particularly on the tanker side actually went up. This offsets the value depletion on older ships. In addition, of course, we had the profits of the first 3 months of April-June, which was credited to the effective NAV.

Moderator: We have Mr. Anand Gupta from Batliwalla & Karani Securities.

Gupta: Good afternoon Sir. What is the market value of offshore fleet as on 30th June 2005?

Bharat Sheth: It is somewhere between Rs.45-50 a share, net of debt.

Moderator: We have our next question coming from Mr. Ramchandra Hegde of Deutsche Bank.

Hegde: What is the Capex on the two different businesses that you have in the next 12 months?

Bharat Sheth: It is spread over a period exceeding 12 months going through till August 2007. It's about USD 240 million of which about USD 165 odd million is in shipping and the rest is in offshore.

Hegde: And can you just throw some light on what is the sort of depreciation rates that you run on offshore side?

Balan: All new OSVs are depreciated over 20 years, while in case of second hand OSV acquisitions, 95% of the asset value is depreciated over the balance life of the asset not exceeding 20 years. For income tax purposes OSVs are included in the block of assets that attract a depreciation rate of 25% (on wdv basis) but due to tonnage tax applicability this is irrelevant.

Moderator: We have our next question coming from Mr. Prakash Sharma of CLSA.

Sharma: Looking at the current capital structure of the company, Of the capital employed of about Rs 4200 crores, Rs 2600 crores is in Shipping and about Rs 600 crores in offshore. What will be the status on leverage front?

Bharat Sheth: Currently, if you take offshore on a stand-alone basis, its got a leverage of about 0.5. Shipping has a slightly higher leverage than that. But that is because shipping had done a lot of expansion in the last 2 years. However, if you look at it across on an industry-wise basis, traditionally, shipping companies have been a little more conservative on the leverage due to the volatility of the freight rates, whereas the offshore business being more of an annuity or a stable income basis, the leverage can be higher. But currently, the offshore division within Great Eastern has a lower leverage than the shipping division.

Once the offshore division is demerged, I presume the Board and the management of that company will determine its own leverage policy.

Sharma: Okay, and just something on the industry front. Can you give us a hint on the global shipping freight rates? Or something about how you are seeing the orders being placed or bookings being done.

Bharat Sheth: Sure. Both on the tankers as well as on the dry bulk, there was a very significant correction downwards of the shipping freights in the month of July and August. We have now seen an improvement, both in tankers as well as in dry bulk.

As far as new building orders are concerned, clearly we have seen a slow down in the pace of new building orders, again both for tankers as well as dry bulk. I think, partly this is a function of the fact that shipyards are unable to take new orders until the end of 2008. Also it is a function of very high asset prices. So owners are being a lot more cautious now, than they were maybe 1-2 years ago.
The other factor that is eating into ship owner's margins at the moment is the very high prices of fuel used to operate ships.

Sharma: And how are the offshore division's charter rates?

Bharat Sheth: The daily rates on the offshore division are slightly on the upward trajectory. So as and when we get the new OSVs or as and when there are new contracts that come up for renewal, we are confident that they should get better price realizations.

Moderator: We move on to our next question form Mr. Harshad Patwardhan of Deutsche Bank.

Patwardhan: You mentioned that following the demerger, better focus and possibility of superior leverage is possible; can we anticipate better growth in the offshore side? You also mentioned about the mix of revenues in terms of rigs, boats and marine construction. So will you be focusing on a particular area for growth, going forward?

Bharat Sheth: I think both the areas of rig as well as that of boats have a capability of leverage, because as I said, the entire division at the moment has got a sort of conservative leverage of 0.5. I think both the asset classes have the capability of undertaking more aggressive leverage.

Going forward, the mix is more or less likely to remain the same. I mean, clearly the opportunities will be both for the boats as well as for the rigs. It just depends what comes first.

Moderator: We have our next question coming from Mr. Ramchandra Hegde of Deutsche Bank.

Hegde: Could you clarify on USD 160 million that you are going to spend? What is the break-up between crude and product?

Bharat Sheth: That is now entirely in product tankers. There are 5 product tankers that are due for delivery between February and August 2007.

Hegde: What is the cash on books as of last Quarter i.e. Q1?

Bharat Sheth: About Rs.1100 crores.

Moderator: We have our next participant, Mr. Abhijeet Darshikar of Refco Sify.

Abhijeet: Can you elaborate a bit on how exactly you calculate the NAV, as of date?

Bharat Sheth: Well, all we do is, we take the market price of our ship and the offshore assets and then we deduct from that the debt and we add back the cash on hand and advance paid towards new building orders.

For arriving at the market price of assets, we have 3 of the top international ship-broking houses, who specialize in sale and purchase transactions and they give us what in their judgment is the value of the fleet. They give us a range and we take the midpoint of that particular range.

Moderator: We have our next question coming from Mr. Deepak Jain of Anagram Stock Broking.

Jain: Sir, in shipping business earlier we have also seen trading opportunities. So in offshore does these kind of opportunities exist or what would be the strategy over there?

Bharat Sheth: In the offshore business it is most unlikely that people would trade in an asset, it is a much more inelastic market in terms of assets. As I was saying earlier, it is more an annuity kind of business where you get contracts for the long-term. It does not have an equivalent of shipping, what is called a spot market.

Jain: Right Sir, so it means 100% long-term fixed contracts in offshore?

Bharat Sheth: Well, not necessarily a 100% fixed contract, you can do shorter-term contract as well. You can do business for 6 months, 3 months, 5 months, etc. But buying and selling of offshore assets is really not an intricate part of that business.

Jain: Okay, and what is the capacity utilization of offshore assets given some may be in lean months or some in peak?

Bharat Sheth: In offshore the capacity utilization varies, I mean, for example, in case of rigs you get a contract, typically for 2-3 years at a time. On the supply boats' case also the utilization is very high and runs at 96-97%. And I think the only joker in the pack is the marine construction activity, where the utilization can vary from 70-80%.

Moderator: We have our next question from Ms. Manju Bhashini of Sundaram Mutual Funds.

Bhashini: This is regarding the state of cash between your two businesses, the offshore and shipping. How do you deal with that while calculating the market value of fleet?

Bharat Sheth: It is based on market value. The valuation, as I was just telling one of the earlier callers that the Board has appointed a committee, that has now appointed two valuers and the valuation exercise will be done by these two independent valuers. And over the next couple of weeks and there will be a Board meeting that will then be convened with a view to discuss the valuation report and that is when the final modality of the demerger will get crystallized.

Bhashini: Okay, but while calculating the NAVs also, you said you will take the market value of fleet of individual division, deduct debt and add back cash?

Bharat Sheth: No, when we do the Net Asset Value calculation, we just take the assets of each of the division and then there is a certain amount of cash credit as to durables to each of the businesses. That is the reason why we have given a range of what the Net Asset Value could be in offshore.

Bhashini: Okay, that is Rs.42-45 per share

Moderator: We have our next question coming from Mr. Vikram Suryavanshi from Karvy Stock Broking.

Vikram: Can you tell us for shipping business how much vessels you are going to add for next one year, apart from the details you have given in your this presentation call, quarterly numbers?

Bharat Sheth: At the moment there is nothing that is likely to be added. If there is an opportunity we will look at it, but the vessels that are committed for, are the 5 new building product tankers, they will be delivered to us in 2007 only.

Moderator: We have our next question coming from Ms. Naina Sharma of JM Morgan Stanley.

Sharma: You mentioned there is a going to be a USD 160 million Capex for the next 2 years. Is this going to be met through your internal accruals?

Bharat Sheth: Yeah, this USD 160 million is only for shipping, that would be met through a mix of internal accruals and debt.

Moderator: As there are no more questions, I would now like to hand over the conference to Mr. Rajat Dutta.

Dutta: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. The transcript of the same will be uploaded on the website for your future reference. We shall be glad to answer any of your questions, which could not be dealt with now. Kindly send us an email on the same. Thank you once again.