"Great Eastern Shipping Company Limited Earnings Conference Call"

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Moderator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter-ended September 30th, 2023.

At this moment all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*' and '1'. I now hand over the conference to Mr. G. Shivakumar - Chief Financial Officer and Executive Director at The Great Eastern Shipping Company Limited to start the proceeding. Thank you. And over to you, sir.

G. Shivakumar: Good afternoon, everyone, thank you for joining us for the discussion of the Q2 Results in market. As it is customary, we will take you through to a short presentation. And then we will move on to the discussions. Customary caveats apply, we are not forecasting markets, we are just giving some views of how we think the markets can pan out.

Highlights:

Net profit of just under Rs. 600 crores on a consolidated basis. Our consolidated net asset value has moved up to Rs. 1,263 per share, that's at the midpoint of range of offshore asset valuations. Our Standalone NAV has moved past Rs. 1,000 a share. We also declared a second interim dividend that makes a seventh consecutive quarterly dividend.

You have seen the results. So, I am not going to go through the numbers in detail. And we have the normalized financials as well. It's not too far from where the reported financials are. So, again, I am not going to go through these in detail.

You can see what's happened with the markets in this quarter. Product tankers, crude tankers both were slightly weaker than in Q1. And product tankers were significantly also weaker than in Q2 of the previous year. Crude tankers were slightly better than in Q2 of last year. LPG ships are on time charter, so it's much of a muchness. Dry bulks were much weaker than they were in Q2 last year and slightly weaker than in Q1 this year. And when we discuss the market, we will see what led to this market performance.

Again, I must say that crude tankers which are showing $40,000 on average for Q2, current spot markets for Aframaxes and Suezmaxes are probably in excess of $55,000 a day as of yesterday or today. Product tankers are around or a little lower than this. They are probably in the low to mid-20s.

LPG spot: again, our ships are on time charter. But LPG spot markets are close to $100,000 a day. We don't currently have any ships on the spot market. And dry bulk, the spot average across our type of ships is probably somewhere in the $15,000 per day range as of today, just giving weightages for different classes of ships.

Changes in the net asset value from a year ago, we have had a Rs. 200 increase in net asset value, little over Rs. 200, of which Rs. 194 is contributed by just the cash accrual to the company. So, it's not just a mark-to-market gain on the asset prices, that is there, that is Rs. 53 per share in fleet value. But most of the gain has come from actual cash profits, which have accrued. Of course, in the last 12 months we have also paid out about Rs. 36 in dividends. So, we have had significant gains on net asset value over the last five years.

On a consolidated basis again, we have had Rs. 300 increase of which Rs. 223 has come from cash profits. Fleet value improvements have happened more than on a standalone basis because the offshore assets have been going up steadily in value, as the market strengthens.

Just looking at the shipping market, we are looking at crude and refined products, both of them, in the last quarter, were significantly below their Q2 last year numbers, though obviously much above FY'22 numbers. And showing signs of an uptick, a big uptick in Suezmax earnings in October and a smaller uptick in MRs.

Now, what's led to this performance, we have seen seaborne crude trade was flat, product trade grew year-on-year. However, you had a very high quarter in the last year. So, Q2 FY'23 was an exceptionally strong quarter because of the war impact which was still being felt in the markets. This year, we have had OPEC cuts which has reduced the amount of cargo available for carriage, which meant that markets were relatively weak. As those OPEC cuts get reversed, as we hope they will be going into the winter if demand stays strong, the market should see some strength.

Our asset prices continue to be firm, they are at their strongest since the global financial crisis. And the order book continues to be exceptionally low for crude tankers at 4%, and for product tankers at about 10%. In recent times, the order book is building up a little bit. So, we have seen some crude tanker ordering. But even with all that ordering, we are still at this 4% mark.

Bulk carriers, for capesizes, freights are better than in FY'23 so you can see, it is higher than the orange line, while for the sub capes, there is a Supramax index here, it was worse than in FY'23. Last year we saw significant outperformance from the smaller ships vis-à-vis the capesizes, this year or at least in the last quarter it reversed somewhat.

Spot earnings were lowish during the quarter, but they had some recovery in September. We have had an improvement in tonne miles demand, while on China, the headline is that it seems to be slowing down. And we can see that steel consumption etc. is lower in China. However, the fact is that iron ore imports into China are still pretty strong, and have grown year-on-year. In fact, China seems to be exporting surplus steel. We have seen big increases in coal imports into China, because of the problem with hydropower generation. And therefore, coal imports have significantly increased. Order book continues to be very low at 8% of the fleet.

LPG markets were spectacularly high in the last quarter, mainly due to Panama Canal issues or rather demand for ships was high, but this was exacerbated by the higher waiting times at

Panama Canal. The Panama Canal is facing water issues due to the El Niño conditions and therefore waiting times at the Panama Canal has gone up. Many ships are deciding to take the long route rather than wait for Panama Canal transit. And that's increased tonne miles. So, that's resulting in tightness in the VLGC markets. And therefore, the markets have been exceptionally high. The order book still continues to be high in excess of 20%.

Looking at fleet supply, I mentioned this on the order book, 4% for crude tankers, 8% for bulk carriers and 10% for product tankers.

Looking at asset price movements, asset prices continue to be strong, dry bulk also after dipping a little bit have picked up while they are much lower than what they were in the highs of 2022 around the beginning of Calendar 2022, but still at fairly high-ish levels. Product tankers and crude tankers, of course remain very strong and so do LPG ships.

Scrapping hasn't been much; we have seen no crude scrapping, though in the last week or two we have heard of some crude ships getting scrapped and some 25 year old crude tankers getting scrapped. But otherwise, there is really nothing of scrapping happening.

Looking at the offshore business; no need to go through each of these points, the headline news is that demand is very strong. And it started about two years ago, demand from the Middle East, it continues to be strong. In the Indian market every successive pricing that we are seeing in the rigs is higher than the last one. So, the most recent pricing in a tender was higher by about 12% to 15% from the pricing that we got on our rig in the last tender, which was a few months ago. So, rates continued to climb, and they are now at a very profitable level. Of course, our rigs will come off from their old contracts in a staggered manner. And once they get repriced and, if the market stays at these levels, then they will be able to enjoy these rates.

On the vessels as well, every pricing that we are seeing is higher than the last. The vessels are now very much in profitable territory already. The rigs will take a little time to catch up, because of the timing of the old contracts getting over.

Fleet supply is under control. Obviously, nobody has ordered any new rigs or vessels in the last four to five years. We have on paper an order book, and these are all rigs which were ordered many years ago and supply vessels, which just are waiting to be delivered, they should have been delivered at least four or five years ago, but there was no business for them, so the delivery did not happen. So, the market continues to be tight and we expect it to be tight going forward also.

Paper utilization is at 75% for jack-up rigs. However, practical utilization is probably in the high 80s and close to 90% based on the marketed utilization so about 10% of the fleet is actually cold stacked for more than three years. And we see that here, yes you can see the number here cold stacked for more than three years, 54 rigs, those are unlikely to come back unless rates go up to very high levels. So, effectively, the utilization is already in the high 80s.

Looking at how many assets are coming up for repricing and now this is a good picture. Two years ago, we would not have liked to see this picture where lots of assets are coming for repricing, but now that the market is much stronger, it's good because then we will get the impact of the stronger markets on earnings of these ships. So, we have seven vessels which are repricing in this half year, that's between October and March; and then another eight which will be repriced in the first half of next year. We have one rig which will come up for repricing in H1FY'25, another in H2FY'25, and then in H2FY'26. The fourth will be coming off contract now and going into a new contract sometime in December/January.

Just some financial data and a reminder we levered up in the low markets, we bought. Now we are levered down; we are sitting on a lot of cash, and we are waiting for opportunities to buy. We have done it in a small way, we sold our oldest bulk carrier JAG ROHAN. And we announced on Friday that we have contracted to purchase modern Kamsarmax, an eco Kamsarmax bulk carrier. So, that's a switch that we did from a smaller size to a larger size, and to a more modern unit. We have taken delivery of MR Tanker as well.

Our share price to consolidated NAV, while the absolute share price has gone up, in terms of valuation metrics it's still not much above where it was, let's say in end of FY'22, it was at 0.62 to NAV. Currently, it stays at about 0.65 to 0.67 to consolidated NAV.

You can go onto our website and see the details of our ESG and our CSR activities. And we welcome you to visit our website. Thank you. Now we are happy to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Just had a couple of questions on the offshore business. So, you mentioned that the outlook remains very strong. So, I just wanted to understand from your perspective, what are the risks to this? And another question on offshore was that we understand that on the rigs side, there is a tendering process of the contract, but if you could also mention what's the sort of the way it works on the vessel side?

G. Shivakumar: So, first I will answer the question on the potential risks to the business and you can see what happened in 2019/2020 where utilization was climbing from the 50s and it had climbed up to the 65% mark, you can see this orange line here, right. And that got choked off by COVID. In early 2020, we were talking about market strength in offshore again, that got choked off by COVID. So, that's the risk which could be there, otherwise the fundamentals are lining up well. So, the risk is really of an unexpected event or something like that; though one is not expecting it say your global financial crisis if it happened and it took oil prices down and generally oil consumption down. So, that's one of the risks, otherwise the fundamentals are lining up, all very positively.

Second is on the contracting process, vessels also in India go through the same tendering process. We are also looking at taking vessels out of India, because markets are available outside, and some of the markets outside are paying more than the Indian markets for some of the types of vessels. So, we will have a lot of vessels in India, at least 50 to 60% of our fleet will be here. But a lot of the ships will go outside India as well. This was the case till 2014 when the market started doing badly and we brought the vessels into India at that time, we had more than 30% of our fleet outside. So, in India, it continues to be tenders, most of the business is awarded by tenders, that's a PSU system. Otherwise, if you are dealing with a private player which is a small part of the Indian market, that happens on a bilateral basis.

Moderator: Thank you. Our next question is from the line of Himanshu Upadhyay from O3 PMS. Please go ahead.

Himanshu Upadhyay: My first question is, see I could understand the rationale for dry bulk, okay what we did. But I wanted to have more clarity on MR tankers. See, what I wanted to know is that if we look at the prices of tankers, they are at the highest decile in the last 10 years or maybe even 15 years okay. And we have stated that charter rates are generally high at the peak. And hence, evaluating cash flows is not the best metrics. Because the cash flows are high and hence you can justify but they can even revert. So, what was the thought process in the purchase of this MR tanker because if we look at the valuation multiple or let’s say value you cannot say it is the lowest decile or the worst quarter in terms of cash flows also, so some clarity on that.

G. Shivakumar: In terms of absolute price, certainly it's not low. So, a couple of points on this it's a very small part of our investable surplus. Our cash itself is in excess of $600 million, this is a very small part of that. So, it's a small step we have taken on the margin.

Second, and the bigger rationale for it is we have a fairly oldish section of our MR fleet. We have four ships which are built in 2004, one built in 2003, and a couple built in 2005 as well. So, that's an old part of the fleet and some of those ships will not be able to freely trade in the international market, once they turn 20. So, while we can find other employment for them, and we will find other employment for them, we thought we should hold on to our position in the international markets and continue to have our exposure. So, that's what we have done by adding on this one ship. So, on the margin, it's a small deal, I agree with you that it's a high point in the cycle so it's not one of those, screaming value buys. But it’s more to hold on to our position in the markets in which we are operating. We don't want to vacate that space. We have one 2003 built ship also, which is currently working in India after it completed a 20-year dry dock.

Himanshu Upadhyay: And what is your view on crude tankers also, because we are at one of the lowest fleet in last 10 to 15 years on crude tankers. And the asset prices there also are very high, so any thoughts on that, how are you evaluating that market?

G. Shivakumar: You are right. When you say the fleet is at the lowest in 15 years, you mean our fleet, right.

Himanshu Upadhyay: Yes.

G. Shivakumar: You are right. We have six crude tankers. And yes, that is the lowest level we have been in many years. Yes, we have a constructive view of the market, we think the market will stay strong for some time. Unfortunately, the prices are also very high. So, we are not sure yet what exactly we want to do. But we are looking at options. We are trying to see how we can play this cycle considering that the markets have gone up, the asset prices have gone up so much. But yes, you are right, it is a conundrum. We don't yet have the answer for it, but we are looking at options. Let's see if we can find some way around it.

Himanshu Upadhyay: One related question only, what type of market or market conditions or forecast you have, in-chartering a ship for a period makes sense means what are the conditions in, in-chartering --?

G. Shivakumar: So, if you are expecting that and the good thing about our business is you can put these numbers all the time, you know what the prices are, you know what the cost of in-chartering would be. And you know what needs to be the residual value at the end of the charter period in order to make a reasonable return. If the prices have gone up very high and you are expecting markets to say mean revert in three to five years' time than you would say maybe, just set off the premium on the ship or the potential capital loss on the ship versus the premium paid for the charter. Just do that comparison and decide. So, sometimes it's a fine comparison and not necessarily exactly right. But you can get a broad picture of whether it makes more sense to charter in or to buy a ship.

Himanshu Upadhyay: So, generally in bullish market that makes sense….

G. Shivakumar: So, in a hot market, so what we have seen in the past, sorry to interrupt Himanshu, in a very high market, in general it makes more sense to in-charter because when you buy a ship, you are paying for more than three or five years of high earnings. While if you are in-charter you are just paying for those three or five years of high earnings.

Himanshu Upadhyay: And one small question, see on Slide #14 when we look at our standalone NAV, value has gone up by Rs. 53 because let's say the value of fleet has gone up on Rs. 809 of previous NAV, which means that the value of ships has gone up by 6% to 7%. But generally, what we have seen is secondhand, older vessels the price rise has been much higher means 15%, 20% in tankers or crude in last I would say one year. Is there something I am missing out or I am making a logical error or is it the right way or where am I making a mistake?

G. Shivakumar: No tankers have gone up more so from a year ago level tankers have gone up 15% plus, you are right. However, bulk carriers have gone down by some 5% or so. So, your overall increase is about 10% in fleet value in this period. So, to that extent, you are right, that there has been an increase from a year ago level, definitely. Was that your question?

Himanshu Upadhyay: Yes, see, it is increased, but it seems very low, because LPG and all those things. Because there is one slide in our presentation itself where on the asset values, five-year-old asset values.

G. Shivakumar: So, there is little bit of difference in the movement in prices at different age levels. So, that also you should keep in mind there, so it won't be an exact parallel to that.

Himanshu Upadhyay: But generally, see, this is the slide, the Slide#22, see generally the price rise what we understand is higher on the older fleet of ships?

G. Shivakumar: Let me take you through one thing, Himanshu. So, just look at this, this is October '22 between 140-150. You can see that for a product tanker, for a five-year-old product tanker, which today is at about 160. So, that's about a 10% move in the price. In a crude tanker, we were at about 135-140, that's gone up to 160 plus, so that's a 20% kind of move. While for bulk carriers, you have, okay, now it's more or less the same as what it was a year ago. But again, this is taking into account constant age, while your fleet will age by one year in this time. What also happens is that you have say a 15-year-old ship in '22, it's become a 16-year-old ship. So, you would have a normal drop in the price of the ship, which may be 5% or so just for age, it should be more than 5%, which may be 10% or so, but you have a benchmark price increase. So, you have a benchmark price increasing by 15%, but your age depreciation of 10%? So, net-net, you have a 5%, I am just giving you a broad example.

Himanshu Upadhyay: No, then it makes sense.

Moderator: Thank you. Our next question is from the line of Sanjeev Pandiya Lancers Impex Limited. Please go ahead, sir.

Sanjeev Pandiya: This is also about your CAPEX cycle, we have seen you in 2017 get aggressive on the CAPEX cycle and that decision has already gone through, now you are on net cash balance sheet. So, the key issue here that we think will drive valuations will be, the message that we get about how you are planning your next CAPEX cycle. At the moment you seem to be treading water, I mean you are only going to be replacing ships and your ship count and your DWT count probably is going to stay within the same range.

At the same time we find someone like Frontline taking a leverage bet on two views. One is that crude ordering is not going to pick up for various technological and peak oil demand not supply, peak oil demand around the corner at 2030. So, it depends on your view on what is happening to solar and wind conversion and you know the difference between renewables and oil, etc. So, when exactly that is going to hit whether it's 2027 or 2035. So, basically, there is a view of peak oil.

The second is related to that is the LNG carrier. So, embedded in these two, somebody is taking a very brave leveraged bet that VLCCs will go into orbit. Now this kind of the previous questions also and your own answers kind of tells us that you are probably not aligned with this kind of an aggressive view, where somebody is even taking a leverage bet. You do have a significant cash reserve. And you could sort of provide for the MTMs, on potential MTM, should you get it wrong, but some message about what is happening to your CAPEX cycle, I mean, if we could get your comments on --

G. Shivakumar: So, yes, we have had other players making dramatically different calls on the market. Our views may not be very different from them, or they may match or they may be very different, whichever. But irrespective of what we are playing by is what is our approach to the business, we don't take outsized bets in high markets. And some other players may view it differently that they say, okay, no, I am 100% convinced of this, I am going to put all my money to work there. And that's the beauty of the market, there are people with different views. So, that's great.

As far as our CAPEX approach is concerned, our approach will be to be cautious in this. We did this small investment in MR tanker. It's a small incremental investment as part of modernizing which you also pointed out that its fleet renewals more than anything else. So, that's what we will be doing, maybe on the margin one or two ships here and there, but not a huge amount.

Having said that dry bulk is actually very close to our levels at which we are okay to invest. So, we could go out. It's the tankers that are priced pretty expensive, dry bulk seem to be priced quite reasonably. If you can find a good asset, it's not a bad investment so we could think, it's very close to where we would think of investing. So, yes, we might invest incrementally and, on the margin, and we have a lot of investment capacity now that we have deleveraged, and we have so much of cash. But we are unlikely to go out into a large amount of CAPEX. We are not going to bet the house on this market, no matter what view we have on it.

Sanjeev Pandiya: A related question given that the cost of idle funds is now pretty substantial and is probably taking away more and more, although it would have reduced somewhat given how interest rates have moved. And from what you are telling me that you are not going to use up all your cash, this is going to be, I mean, if we just project it out five years forward and all the cost of idle funds is going to cumulatively add up to quite a bit. So, are you thinking about that or doing something out of the box, in that area or you just treat it as a cost and just absorb it?

G. Shivakumar: I see the point you are making, the cost yes, so one thing is the cost of idle funds has come down as you yourself rightly pointed out from 0% interest you have gone up to 4% to 5% interest in dollars so that's one thing. However, because the earnings of the business are so much higher that gap has actually gone higher, because the 5% increase in the earnings on funds is much lower than what has happened to the returns on ships. However, that is a trap that we fell into the last time which is going for current yield, that is always a temptation, that you get a higher current yield from ships than you get from cash and therefore you say I would rather put it into ships than cash. However, cash remains cash and ships can depreciate, or they can appreciate. But at some points in the cycle, you know that the likelihood of depreciation is higher than the likelihood of appreciation. And that's what we will be very careful about.

So, when we look at funds, and the cost of holding funds or cost of keeping money idle in treasury, we also look at if you get a 5% drop in the value of the ship or net of the earnings, then that's adding to the ability to your decision to hold on to cash. For instance, we saw that the ships we bought in 2007 in the high part of the market even if you just held on to that cash for the next five years till you got the opportunity to buy it cheap you were better off than buying it in 2007. So, it's okay, you know, we are not going to go by current yield, by buying when the yield on shipping assets is better than the yield on cash, because we have seen that that can be a trap sometimes.

Sanjeev Pandiya: So, what I am noticing is that therefore you continue to talk the language of value as compared to, I mean to use market lingo as compared to momentum. So, when I see another shipping company, I see somebody talking momentum, which basically the VLCC, crude –

G. Shivakumar: It may work for them, yes.

Sanjeev Pandiya: Kind of while you continue to stick with the value philosophy. Now, given that --

G. Shivakumar: Not a 100%, so, if we were a 100% fundamentalist on value than we would not be doing anything today. Maybe on the margin we will do something, but we will be focused more on value than on buying at high points in the market. But yes, our focus will continue to be on value.

Sanjeev Pandiya: Then this points to a divergence in the understanding of what is happening to ship ordering and shipyard capacity. If shipyard capacity is mostly today committed to, let's say containers, then how much is left for any crude, bulk etc.? And has the downside, given higher steel prices etc., because when we were talking in 2017, we were looking at steel prices in the region of $350, $400 and today it's something else. So, the baseline also would have shifted. Given that, can't we assume that the existing downside, the existing VAR value-at-risk on your existing ship portfolio would be almost down to zero and it is the new ships that will add value-at-risk given the context of where shipyard capacity is right now I mean, and the fact that orders are not forthcoming either for technology reasons, or whatever the reason --

G. Shivakumar: That's right. And I think the risk in buying today is higher than the potential return sort of where we are, and when we weigh the two, we think that there is more downside than upside to doing those transactions and that's why we are not doing that.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya from Honesty & Integrity Investment. Please go ahead.

Vaibhav Badjatya: So, I just want to understand a few things on the global oil flows. So, I think as of now most of the oil from Saudi Arabia, Kuwait and UAE through Strait of Hormuz. Now I want to understand what the alternate routes are and what are the capacities of those alternate routes. So, one is the Red Sea and another is much longer, probably through the Suez Canal. So, I just want to understand the capacity, both in terms of pipeline from Saudi Arabia, from the oil production facilities to the Red Sea and then from Red Sea it goes to Straits of Hormuz. So, I just want to understand this whole alternate route.

G. Shivakumar: In practical terms there is no alternate to coming through the Straits of Hormuz. There is a lot of oil and you can't necessarily evacuate it all the way around through the Red Sea. So, in practical terms maybe a couple of million barrels can move, but there is a lot, so you have a lot of export capacity from within the Gulf and that cannot move to the Red Sea. So, if you have an issue there that is, there is no solution to it.

Vaibhav Badjatya: I think that Saudi has some pipeline capacity to push away --

G. Shivakumar: You need the export capacity also; we will have to see what the export capacity of those terminals is. I don't think it's significant. It's very difficult to replace.

Moderator: Thank you. Our next question is from the line of Vikram Suryavanshi from PhillipCapital (India) Private Limited. Please go ahead.

Vikram Suryavanshi: For order book as a percentage of fleet if you look at last few quarters there has been an increase around from the low. So, is it mainly because of newer ordering or is it fleet has come down because of scrapping?

G. Shivakumar: No, fleet has not come down at all, it's just new orders. Nobody is scrapping any ships, the market is so hot that nobody wants to scrap a tanker, even bulk carrier owners are holding on to their ships --

Vikram Suryavanshi: And in fleet size if we look at we would see almost like 3% of fleet growth in dry bulk, but just to take into impact of the congestion, is the congestion impact is normalized now or we do see some free up capacity even going forward with the normalization of trade.

G. Shivakumar: So, the congestion has actually come down below the normal level. So, when we say congestion, the way we define it is fleet which is in port for whatever reason, so it's come down a lot from year ago numbers. And now it's come down even slightly below the normal level. So, you have got less than 25% of the capesize fleet for instance in port currently, which is lower than normal. You would normally be in the high 20s to 30s. So, congestion has come down there is no further room for it to release ships.

There is one area where there is congestion, which is mainly of Panamax/Kamsarmax is, where there is a lot of congestion at a couple of grain export terminals in Brazil, again because of some river water issues. So, there is congestion in that location, meaning there is waiting up to two months.

Vikram Suryavanshi: So, if the trades recover so probably, we can see then again congestion can increase?

G. Shivakumar: Potentially yes.

Vikram Suryavanshi: And then is there any play available with average period of ships here, because since congestion is below normal and probably rates are also lower, so we might be running at much lower speed?

G. Shivakumar: No, you could have a play on speed, you could have a play it still half a knot to one knot lower speed and that could well happen, but not related to congestion really, no. And if that happens it could cause less efficiency. So, I would put that as a cause of some future inefficiency rather than as an outcome of congestion.

Vikram Suryavanshi: And last question about this offshore repayment is coming next year. So, we have sufficient cash, but will we use all the cash to repay or will refinance that and keep some cash on the --?

G. Shivakumar: Intention is to refinance; intention is not to use all our cash to repay. Intention is to refinance.

Moderator: Thank you. Our next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: See as per Annual Report, the estimated life a few of these tankers and product tankers would be 20 and 23 respectively. And if I look at our fleet some of our assets will be close to the estimated life. So, my question is, is it sacrosanct or because we have maintained efficiently most of these ships, the life can be far longer than the estimated life? That's question number one. And for oil do we have to take a decision for these assets, whichever have a residual life of one to three years in the next one to three years.

G. Shivakumar: So, these lives that we have put which we use for the purpose of calculating depreciation, useful life for the purpose of calculating depreciation. Our assessments of how long they can work and typically we take a commercial life, there is no regulatory date, I mean these are not the regulatory dates. There are regulations which will stop you from running the ship beyond a certain point. But these are not those dates. So, for instance, you can still run a crude tanker past the age of 20, though we have put 20 as the useful life; you can still run a product tanker beyond the age of 23, you can still run a bulker beyond 23 also.

What happens is that beyond a certain age, commercial tradability becomes a little more difficult. You know that we operate mainly in the international market, the international market is 80% of our revenue. Some customers will not be willing to take these assets beyond a certain age, that's where it starts potentially affecting the trading life, but otherwise, there is no issue; we maintain our ships well, it's only because the birthdate is so and so, the date of building that sometimes the acceptability cannot be great. Otherwise, we are absolutely fine to run these to whatever is, because we try to maintain the ships to be able to trade in all markets at all times.

Anuj Sharma: So, it's fair that we will think of taking a decision on the ships in the residual period that will be a commercially logical decision, correct?

G. Shivakumar: That is right. We will, obviously we would like to renew our fleet at the opportune time and price, so that we will look at in the coming couple of years when they get to those ages.

Anuj Sharma: And my second question is, you talked on the rigs part that the rates would be 10% to 12% higher than the last renewal. For the vessels what is the rough increase in the prices for vessels since the last contract?

G. Shivakumar: So, for a real comparability, because in the vessel these are contracts which were fixed about four or five years ago, those contracts are getting priced up by, in the Indian market by anything between 50% and 90% for time charters, again, from a low base. In the international market, so we took one vessel out of the Indian market and she was earning X dollars per day, we took her into the international market, she is earning 2.5x, so you have 150% increase. Again, there is a difference between a three-year charter contract which she was on in India, versus say six month to one year contract where she is overseas. But still, the headline rate is significantly higher. To compare it on a like-for-like basis five years ago, the rig rates of the last done contract of our own rig is 3x of what it was five years ago. And now that 3x has gone up by another 12% to 15%. So, it is not a forecast for what our next contract could be at, it is just what the market pricing is at.

Moderator: Thank you. Our next question is a text question from the line of Samraj N from Dwarka Share Brokers Private Limited.

Samraj N: To get a pulse of the S&P market was the acquisition in million dollars for the AHTSV, MR2 and Kamsarmax and sales price of the Supra. Also, what is the DWT of the AHTSV?

G. Shivakumar: We don't, because of confidentiality clauses we don't give out prices of any of our acquisitions or sales. The deadweight of the AHTSV is probably less than 2000 deadweight I am not 100% sure, it is probably less than 2000 deadweight.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: I couldn't catch the answer which you gave to one of the previous participants on the rig repricing where you mentioned it is 10%, 15% higher, it is 3x, 5x, I was confused there. So, what is the pricing that you had bought and the renewal contract? How much higher are the renewed contract at?

G. Shivakumar: Pricing five years ago in a three-year contract in India was X. Our repricing, which happened four months ago or five months ago, was 3x. The latest repricing which happened in a similar contract where we did not have a rig, we were not bidding in that contract, but this is just to show you what is happening to the market recently, is another 12% to 15% higher than the 3x. So, we are talking of 3.35x to 3.5x.

Pritesh Chheda: The recent contract where you did not bid the pricing was how much higher?

G. Shivakumar: 12% to 15%, higher than the most recent contract that we got.

Pritesh Chheda: The other thing is, you have these repricing of rigs, the import vessels. So, my guess is, you have already got into the contracting, is it fair to assume that this time around you would have in a slightly longer period tracks of three to five years type in some of these vessels?

G. Shivakumar: No, we don't get to choose the periods of the contracts. The customer chooses what time period they want for the contracts either a three year or five-year contract in the Indian tender. So, we don't, this is not a bilateral negotiation.

Pritesh Chheda: What will be the average tenure now?

G. Shivakumar: These are typically three-year contracts for standard contracts and five-year contracts for more specialized ones. Again, the pricing there is between 50% and 90% higher.

Pritesh Chheda: Is it fair to assume that the whole fleet will be on contract and very less on spot?

G. Shivakumar: Yes, we have a couple of vessels which - there is not really a spot market, only very significant spot market is North Sea vessel market, we are not there in that market - So, they will be on short-term contracts or long-term contracts. So, we do contracts including for 30 days, 45 days, three months also. But majority of our fleet which is in India will typically be three-year to five years type contract.

Pritesh Chheda: And you have very less fleet which is outside India, right?

G. Shivakumar: That's right, maybe 30% to 40% of the fleet out of our 19 ships will be outside India.

Pritesh Chheda: And my last question is for the rigs that we have 14-year rigs, now the asset values for similar like only a rig if you could share that?

G. Shivakumar: Sorry, what is the price of a rig of our size?

Pritesh Chheda: Yes.

G. Shivakumar: Depending on who you ask, it is between $80 and $110 million.

Pritesh Chheda: And this is a 180 foot rig?

G. Shivakumar: This is a 350-foot rig.

Pritesh Chheda: So, you said it’s between $80 to $110, $120, right.

G. Shivakumar: Yes, between $80 and $110 million, probably somewhere in the $95 to $100 million range is where I would put a guess. Again, these are not very liquid markets, that's why the wide range.

Moderator: Thank you. My next question is a follow up question from the line of Sanjeev Pandiya from Lancers Impex Limited. Please go ahead.

Sanjeev Pandiya: This is about the evolving technology and the 2030 emission norms and particularly the EU ETS starting from next year. (1) How do you expect VLCC rates to be impacted by the carbon tax on you? (2) Where are we on the 2030 norms? Is there any sense that we have 20 ships I believe are already sailing around the world with different kinds of technologies from hydrogen to wind, to solar, to even cells people are using too. Some big guys including Maersk, and all have also kind of picked up one or two of these ships for commercial operations. So, how is this technology evolving? Do you think that this is what will kick off the next CAPEX cycle across the industry? And where are we on scaling up I mean, which technology is most likely to run ahead of the others? So, how do you see the whole situation evolving and can we anticipate the next CAPEX cycle coming from this direction?

G. Shivakumar: That's an interesting one, I will start with the last question first. Yes, lots of people are experimenting with lots of stuff. You know wind is an add-on, nobody is looking at wind as a primary propulsion, they are adding it on as potentially to do some fuel savings. So, it's not a primary propulsion method for the ship. There are lots of other energy saving devices, we are also putting energy saving devices and we have been doing it for the last 10 years now. So, let's keep that aside.

Fuels, people are experimenting with a lot of fuels. We hear about hydrogen, I don't think there are any deep-sea long-distance hydrogen ships yet, not that I have heard of. And maybe there are short haul kinds of ships. But I don't even recall hearing that. There are electric but again, for very short hauls. People are experimenting with ammonia and methanol, again, all of these are very experimental.

Your question on the CAPEX cycle is very valid. You probably remember that the last time there was a big CAPEX cycle and new building cycle in shipping was when the so called, not so called, the actual Eco-ships were introduced by the shipyards in 2011 and 2012. And that kicked off a big round of building for people who wanted to get the Eco-ships and be more competitive. And that led to overbuilding, as sometimes happens. We hope that doesn't happen this time. Again, it will take time for all these technologies to settle down you know that Eco-ships were more evolutionary and incremental, these things are more revolutionary to change your fuel completely from normal hydrocarbon based oils to say methanol or ammonia, which have naturally a lower energy density and therefore cost more money, they are less efficient, etc. It will take some time. Maybe it will happen in three years’ time, maybe five years’ time, not yet. So, that's one thing.

Coming back to your first question, not specifically for VLGCs but the EU ETS, yes, it kicks in from Jan '24. There will be confusion about how exactly to implement it. We know how it is to be calculated. Yes, this will add to the cost of the trade. But it's not different from if a port in the EU charges us extra as port charges. So, everybody will price it into the trade. Finally, the cost will get passed on to the consumer in the EU, whoever the customer is. So, while it is a regulatory hassle for ship owners, finally the cost will be borne potentially by the customers, in most normal circumstances.

Sanjeev Pandiya: The 2030 environment, the emerging technological developments on emission standards.

G. Shivakumar: So, 2030, we actually don't know. They have set a target for 20% reduction, aim for 30% reduction, so on so forth. We don't know how it is to be achieved. They have set a certain trajectory, which is at the macro level. We have the thing called CII where you have to start complying and you get rated under A to E, and you have to achieve certain ratings so on so forth. You have to report these, so the first step is to report and then try to correct.

However, this is going to be reviewed in CY2025-2026. And they will decide then what to do about that rating methodology. So, I think 2030 is a long way away. All of this is going to be reviewed in CY2025-2026. And then we will know the new direction that we are going to take. Until then there is, we just don't know; we will keep complying, obviously, we have been reporting our emissions, calculating and reporting voluntarily, even before all these CII norms came in for the last four years. So, yes, we will just keep going ahead with that, that's all.

Moderator: Thank you. Our next question is from the line of Roshan Nair from B&K Securities. Please go ahead.

Roshan Nair: So, I just quickly wanted to understand your outlook for the second half of our crude and product tankers market and dry bulk carrier market.

G. Shivakumar: So, while it's tough to give an outlook. But typically, and you have been following us for long enough, you know, the winter months are the strongest months usually for the tanker market. Apart from that we have also had inventory drawdowns happening. Also because of the OPEC cut and the Saudi cut on top of the OPEC cut. All of this has to catch up sometime. And therefore, lead to higher demand for transportation of crude oil and refined products. Therefore, we would expect and we are already seeing it in the crude tanker markets what was $25,000 a day three weeks ago, is now at $55,000 a day for a Suezmax or Aframax, markets are stronger. Product tankers not yet so strong, at least not the MR. MRs are slightly weaker than they were three weeks ago, but we see strength in, you should see strength in the second half of the financial year, mainly because its just seasonality.

Roshan Nair: So, another question is, at what asset prices you should start comfortably adding fleet in the dry bulk side?

G. Shivakumar: So, as you have seen we have done one transaction. So, we will do that, we will do some transactions potentially. We are not there to go all in at these prices. So, it will be incremental rather than a large CAPEX. We probably need to see some more drop in prices before we commit a large number. It is close to where we would like to be but not yet there.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from Honesty & Integrity Investment. Please go ahead.

Vaibhav Badjatya: I was just trying to understand when the last time Strait of Hormuz closed how did or what did you experience last time or was it just the reduction in tonne mile because there was, oil source were not possible or what happened last time it would be interesting to understand?

G. Shivakumar: So, I don't think the Strait of Hormuz actually closed in the past. We had the Iran - Iraq War going on where there was shelling and missiles, rockets were fired. I don't think the Strait of Hormuz actually closed fleets. So, we don't have a precedent for any Strait of Hormuz closing. So, this has not happened and again this is befoe my time, the Iran - Iraq War happened in the 80s, but I don't think we had it completely closed.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question and answer session. I now hand the conference over to Ms. Anjali Kumar – Head of Corporate Communications for closing comments.

Anjali Kumar: We will end this call here, thank you everybody for joining in. And we will be uploading the transcripts very shortly. And feel free to reach out to our team for any further queries. Thank you very much again.

Moderator: Thank you. On behalf of The Great Eastern Shipping Company Limited that concludes this conference. Thank you for joining us and you may now exit the meeting.